Farm Credit Canada

2016-17 Annual Report

FCC CUSTOMER VALUE PROPOSITION

What you can expect from us:

FCC proudly serves Canadian agriculture as the leading provider of financing to the industry since 1959.

We focus on the primary producer as well as suppliers and processors along the agriculture value chain.

We provide our customers with flexible, competitively priced financing, management software, information and learning.

These services help our customers make sound business decisions and experience greater success.

We take time to get to know our customers, their individual needs, goals and vision for the future. We work with them through challenges and help them pursue opportunities.

We're easy to do business with.

Agriculture. We know it. We love it. We're in it for the long run.

2 Message from the President and CEO
4 Message from the Board Chair
5 Message from the Agriculture Minister
6 2016-17 Highlights
7 Corporate profile
9 Public policy role
11 Corporate governance
15 Board of Directors and Enterprise Management Team
16 Corporate social responsibility
17 Management's discussion and analysis
62 Financial statements
117 Glossary
120 FCC office locations

Message from the President and CEO

Agriculture is our passion at FCC, and we're proud to be a trusted partner to thousands of Canadians from coast to coast who work hard to feed a growing world.

As Canada's largest lender to agriculture, FCC sees first-hand the effort and dedication of Canadians involved in agriculture, the quality of management they bring to their operations and their ability to succeed in this ever-changing industry.

Bringing strength and stability to Canadian agriculture

We continued to fulfil FCC's special mandate this year – more than 80% of our customers are small and medium-sized businesses, we made $3.2 billion in loan disbursements to farmers under the age of 40 and the strength of our portfolio, which now tops $31.2 billion after 24 consecutive years of growth, reflects the growth and prosperity of Canada's farm families.

Agriculture is all we do, which gives us a unique perspective and enduring commitment to this industry and the customers we serve. We've designed a variety of flexible products and services to provide customers across the agriculture value chain with access to the capital they need, from primary producers to the agribusiness and agri-food companies that add the processing value here at home before selling their products to Canadian and global markets.

As a federal Crown corporation, FCC exists to advance agriculture and enhance rural Canada, and we remain a stable presence in a time of change for global economies. Agriculture has always been an industry of partnerships and at FCC, we believe that we're better together. We value our productive relationships with Canada's credit unions and banks, which include partnering on larger loans to provide access to capital.

Agriculture has always been a cyclical industry and can be affected by adverse weather, disease and economic factors. We assisted our customers through several weather and production challenges this past year, from drought in Ontario and Quebec to a tuberculosis outbreak in Alberta cattle to a wet fall in the West that hampered harvest, and we're proud of the industry's ability to be resilient and move forward.

We continue to advance our public policy priorities and business practices to deliver on our mandate to Canadians as a federal Crown corporation. As we support agriculture to become a leader in job creation and innovation, we're working to meet the changing needs of the industry and our customers.

Supporting jobs and innovation

The pace of innovation in agriculture is picking up as the marketplace evolves and technology changes the way we all do business.

Our customers are online and on the go, so we're refocusing our efforts to deliver a great customer experience, including becoming a more digital organization. We want to enable our customers and employees to have access to the information they need anytime, anywhere and on any device, and we're well on our way to meeting that expectation.

The spirit of innovation is thriving across FCC, and I'm proud of the work our employees are doing to make a great customer experience even better and to become more agile in our business processes, while keeping our responsibilities as a prudent lender top of mind. Our ability to support agriculture over the long term requires us to manage every aspect of our business with diligence and care.

We add value beyond lending by offering learning programs and resources free of charge to customers and non-customers. Our online channels receive thousands of views and more than 11,000 people attended a learning event in 2016-17.

Agriculture is a viable place to build a career and the need is great – Statistics Canada numbers indicate 7% of agriculture jobs are currently going unfilled, with that number projected to increase to 25% in 10 years. We're helping inspire the next generation through our partnerships with 4-H, school programs such as Agriculture in the Classroom and activities with post-secondary students. Young people are bringing their optimism and energy to agriculture in growing numbers, with enrolment up in agriculture programs.

In 2016-17, we increased our support to farmers and entrepreneurs under age 40 by enhancing our Young Farmer Loan and introducing the Young Entrepreneur Loan to assist young people working in the agriculture retail, manufacturing and food processing sectors. These two loan products will help make more capital available for young Canadians to enter agriculture or grow their businesses.

Inspiring growth and potential

I'm excited about this special year in our nation's history. Agriculture has come a long way in the past 150 years and is a vital part of the Canadian economy. Our agriculture and agri-food industry employs 2.2 million Canadians – one in eight jobs – and contributes more than $100 billion annually to Canada's gross domestic product (GDP), which is more than the national GDP of two-thirds of the world's countries.

I invite you to visit AgMoreThanEver.ca to be inspired by the stories of Canadians who are moving the industry forward. Agriculture More Than Ever is a cause driven by hundreds of industry partners who are spreading the word about agriculture. A highlight for the cause in 2016-17 was Canada's Agriculture Day, a nationwide celebration that took place February 16 in communities large and small, and we look forward to building on our progress next year.

FCC has been a steady presence in Canadian agriculture for more than 50 years. We continue to enhance the quality of life in rural Canada through our corporate social responsibility initiatives, including raising our highest-ever total – 6.7 million meals – for food banks across Canada through the 2016-17 FCC Drive Away Hunger campaign. We support agriculture safety including Agriculture Safety Week activities and our Back to Ag partnership with the Canadian Agricultural Safety Association and the Rick Hansen Foundation to help injured farmers and agricultural workers return to work on the farm. Our contribution to STARS air ambulance provides life-saving transportation to patients in rural Alberta, Saskatchewan, Manitoba and eastern B.C. To learn more about our corporate social responsibility initiatives, I invite you to read our CSR report online at fcc.ca/CSRReport.

As Canadians, we can take pride that our country is one of the few with the capacity to help meet the growing global demand for safe, high-quality, sustainably produced food. That spirit of optimism also drives FCC's reason for being – our higher purpose. We serve the industry that feeds the world, and it's a responsibility that we're honoured to uphold now and into the future.

Michael Hoffort, President and CEO

Message from the Board Chair

As Canada's largest lender to agriculture, FCC has a longstanding commitment to serve the industry and enhance rural Canada.

FCC had another successful year in 2016-17, achieving excellent lending results, growing its portfolio, managing enterprise risk and advancing its strategies and initiatives.

The FCC Board of Directors provides leadership and independent oversight of FCC management and operations. On behalf of the Board, we're proud of the responsible way in which FCC delivers on its mandate and contributes to Canadian agriculture and communities.

After more than 50 years in the marketplace, FCC remains relevant to the industry by acting as a steady source of financing to Canadian agriculture, agribusiness and agri-food operations of all sizes. FCC's deep understanding of the industry allows it to create innovative products, services and programs that enhance the experience it offers to its 100,000 customers across Canada and supports the long-term success of the industry.

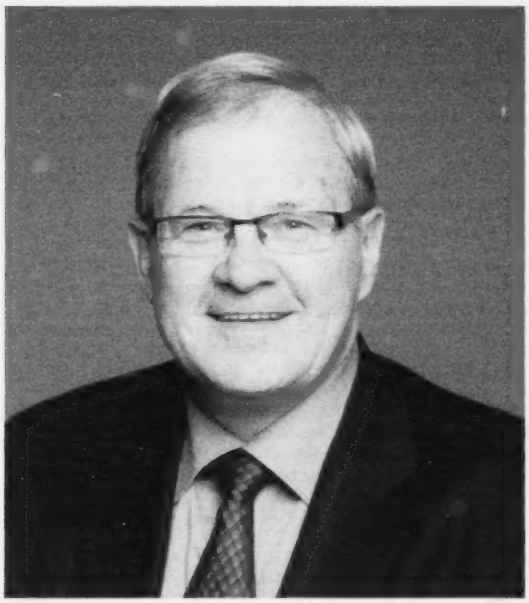
The Board is supportive of management and employees and we value their passion and professionalism as they build relationships and achieve FCC's business objectives and public policy commitments. The Board is experiencing a period of renewal as we welcome new members in 2017-18, and we look forward to the insights and contributions of our full Board over the coming year.

Canadian agriculture in the 21st century is an industry with local, national and global impact. FCC is a proud partner to Canada's farm families, producers and agribusiness and agri-food operators, and will continue to serve the industry with excellence.

Respectfully submitted on behalf of the FCC Board of Directors,

Dale Johnston, Board Chair

Message from the Agriculture Minister



Canada has a well-deserved reputation here at home and around the world for producing safe, high-quality food. The agriculture and agri-food industry is one of the most vibrant sectors of our economy, and thousands of Canadians from coast to coast work to feed the world while creating jobs and contributing to the local economy here at home.

As Canada's leading lender to agriculture, FCC provides access to capital through all economic cycles, and tailors its financial and business products and services to meet the diverse needs of all sectors of the industry, from new entrants to those planning expansion or succession. FCC is also a trusted partner in communities across Canada, both for its commitment to agriculture and its efforts to enhance the quality of life in our communities.

I've worked closely with FCC to build strong relationships, connect with stakeholders and move the industry forward. As I directed in my mandate letter, our work includes a range of priorities designed to support Canada's farm families, producers and businesses along the agriculture value chain, and to deliver on our commitments to Canadians.

This is a significant year for all Canadians. As we reflect on the 150th anniversary of Confederation, we can take great pride in the continued growth and prosperity of Canada's agriculture and agri-food industry and the significant impact it has on our economy and our way of life. Together, we can protect and grow Canadian agriculture's potential as we work to strengthen our global relationships, address climate change and advance the sustainability of our agricultural practices and environmental stewardship.

I thank FCC's Board of Directors and employees for their efforts as we help the agriculture and agri-food sector continue to grow and become even stronger, safer and more innovative.

The Honourable Lawrence MacAulay P.C., M.P.
Minister of Agriculture and Agri-Food

2016-17 Highlights*

We fulfil our mandate from the federal government, and achieve our mission, when we support and strengthen Canadian agriculture.

When we leverage our financial strength

$31.2 billion portfolio **and 24 years of growth**

Financially **self-sustaining** with net income of **$613.8 million**

25,154 credit facilities approved this year

With knowledgeable, engaged employees committed to the industry

100 offices located primarily in **rural areas**

Aon Hewitt **Platinum employer**

Over 1,800 employees across Canada

We serve Canadian agriculture, inspiring possibility and passion

Over 100,000 **customers across Canada**

$3 million given back to communities through community investment initiatives

86% **of customers in small to medium-sized business operations related to farming**

$3.2 billion **loaned to young farmers under age 40**

*Results as of March 31, 2017

Corporate profile

Farm Credit Canada (FCC) is a financially self-sustaining federal commercial Crown corporation reporting to Canadians and Parliament through the Minister of Agriculture and Agri-Food. FCC provides financing and other services to more than 100,000 customers.[1] We're a team of more than 1,800 employees operating from 100 offices located primarily in rural Canada with our corporate office located in Regina, Saskatchewan.

We're passionate about what we do and our team has professional expertise in many areas, focused on agriculture. We lend money and provide other services to primary producers, agri-food operations and agribusinesses that provide inputs or add value to agriculture. Primary production is FCC's core business and represents 83.6% of our loan portfolio. We share business management knowledge and training with our customers and the industry, free of charge. We offer management and accounting software designed for agriculture. We invest in venture capital funds, managed by Avrio Capital, that are dedicated to agriculture, providing an alternate source of capital and expertise to the growing number of innovative firms that will help the industry achieve new potential.

Our roots date back to 1929, when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. In 1959, the Farm Credit Act established FCC as an agent Crown corporation, making us the successor to the CFLB.

In 1993, the Farm Credit Corporation Act expanded our mandate and broadened our lending and administrative powers. Under the new mandate, FCC began providing financial services to larger farming operations and farming corporations, as well as to individual farmers.

In 2001, the Farm Credit Canada Act allowed us to offer an even broader range of services to producers, agri-food operations and agribusinesses.

For over a half century, we've listened to our customers and continually adapted our products and services to fit their unique needs. Together, FCC and the agriculture community have experienced the dramatic transformations in production, technology and markets that are moving the industry forward. And through it all, one thing remains unchanged — agriculture matters to Canada and to FCC. With a healthy portfolio of more than $31.2 billion and 24 consecutive years of portfolio growth, FCC is a strong, stable partner dedicated to serving the Canadian agriculture industry through all economic cycles.

Vision

The full agriculture and agri-food value chain believes FCC is advancing the business of agriculture by providing financial products, services and knowledge tailored to producers and agribusiness operators. Our customers are advocates of FCC and can't imagine doing business without us. We are socially and environmentally responsible and an employer of choice everywhere we operate. We make it easy for customers and employees to do business. We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.

[1] FCC customers include all customers with an active loan balance who are primary borrowers, co-borrowers or guarantors for personal and corporate loans, including primary production, agribusiness and agri-food, and alliances.

Corporate values

We are committed to advancing the business of agriculture. We do this by setting our sights high – working to benefit our customers and to help employees achieve their potential.

Our corporate values represent these core beliefs:

Act with integrity

We are ethical and honest. We treat customers, colleagues and all stakeholders with respect.

Focus on the customer

We care about our customers, and we pride ourselves on providing them with an extraordinary experience based on personal relationships, flexibility and industry knowledge.

Achieve excellence

We share a commitment to high performance, accountability and efficiency in order to achieve excellence.

Working together

We believe in the power of teamwork. Whether delivering service tailored to customer needs or designing solutions to benefit the industry, we work together as one team.

Give back to the community

We take corporate social responsibility seriously. We believe in giving back to the communities where our customers and employees live and work, striving to reduce our impact on the environment and contributing to the success of the agriculture industry.

Cultural practices

In addition to its corporate values, FCC's cultural practices outline the behaviours that employees and Board members are expected to demonstrate with colleagues, customers, partners, suppliers and stakeholders.

For more information about FCC, visit fcc.ca/WhoWeAre.

Public policy role

FCC's mandate is described in the Farm Credit Canada Act as follows:

The purpose of the corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

FCC's public policy role is the foundation of everything we do to advance the business of agriculture across Canada. Our priorities reflect the federal government's mandate to support the agriculture sector in a way that allows this vibrant industry to be a leader in job creation and innovation.

We provide access to capital

FCC provides access to capital by delivering a wide range of financial and business products and services tailored to the industry's unique needs. We lend money to all agriculture sectors, including primary producers, agri-food operations and agribusinesses that provide inputs or add value to agriculture.

Access to capital allows producers and agribusinesses to adopt innovative practices and business models that enable them to expand, lower their production costs, develop new products and compete in global markets.

Healthy marketplace competition and a choice of financing are necessary for Canadian producers and agribusinesses to be successful through all economic cycles. FCC works with credit unions to address market and policy issues of mutual interest and identify opportunities for partnership. We partner with Canadian banks to provide financing for agriculture operations and agribusinesses. We also offer venture capital financing to Canadian agriculture through Avrio Capital, a private entity that manages a series of investment funds on behalf of FCC and other investment partners. This capital helps innovative firms grow into strong businesses in Canada.

FCC continued to be self-sustaining and profitable in 2016-17. Our ongoing strength and stability allows us to serve agriculture through all cycles. We continue to reinvest FCC's profits into agriculture through increased lending to customers and by developing knowledge, products and services to meet our customers' needs.

We advance the business of agriculture

We believe sound financial management is key to successful agriculture operations. To help advance producers' business management skills and knowledge, FCC continued to offer a wide range of learning events, publications and other resources to our customers and the industry in 2016-17. Producers of all ages and in all sectors can access our in-person and online resources, free of charge. In addition, FCC offers accounting and farm management software tools that enhance our customers' ability to manage their businesses. We also ensure our employees have the appropriate knowledge and tools to provide solid insight and expertise to our customers to help them achieve their goals.

Young farmers are very important to the agriculture industry. FCC proudly supports them by offering products and services such as the Transition Loan, Young Farmer Loan and Young Entrepreneur Loan, assisting with intergenerational transfers of operations and helping young people enter the industry and grow their businesses.

FCC continues to champion Agriculture More Than Ever, an industry-driven cause made up of hundreds of partners and thousands of industry champions, called agvocates, from across the country, all committed to improving perceptions, dispelling myths and creating positive dialogue about Canadian agriculture. Agriculture More Than Ever provides resources and a forum for agvocates to tell the real, positive story of Canadian agriculture.

We support government policy through collaboration with other government agencies

FCC collaborates with Export Development Canada and Business Development Bank of Canada to support innovation and access to international markets for Canadian agribusinesses. Our employees and their counterparts at Agriculture and Agri-Food Canada connect on a range of topics important to the agriculture industry, including farmland values, commodity prices and interest rates.

We're dedicated to agriculture and take a long-term view

We support the agriculture industry and are committed to its long-term success. Our strong financial position enables us to create innovative products and services that are tailored to the dynamic needs of the industry and ensure producers and agribusiness operators have choices in the marketplace.

Our loan products reflect that agriculture is a cyclical industry and that it takes time for business operations to flourish. Unpredictable weather and market conditions can negatively affect producers and agribusiness operators. We support our customers through highs and lows. Our customer support program allows customers to restructure the terms of their loans to help manage through difficult times. The FCC Ag Crisis Fund also provides modest financial support to customers experiencing a traumatic life event.

Our employees attend events and meetings hosted by industry, stakeholder and producer groups, and we share knowledge and solicit input and feedback on issues facing agriculture. We also lead Canada's largest agriculture-focused research panel, called FCC Vision. FCC Vision enables its members to share their ideas and opinions about Canadian agriculture and how FCC can best serve this exciting, growing industry.

FCC carefully balances the resources needed to support a growing enterprise while controlling costs and increasing efficiencies. This allows us to deliver on our public policy objectives and sustain our excellent financial performance and ability to serve agriculture in the years to come.

We operate our business in a sustainable manner

Our corporate social responsibility framework focuses on agriculture and food, community, customers, employees and the environment. To support our commitment, we offer financing for environmental solutions to our customers, hire and develop employees who are passionate and knowledgeable about agriculture, give back to the communities where our customers and employees live and work, and continually work to reduce our environmental footprint.

FCC exercises all reasonable care to safeguard the environment and protect the value of real property taken as lending security.

To protect the environment and mitigate identified risks, FCC conducts environmental assessments of all properties used by customers to secure financing. The lending decision process also requires customers to provide written declarations that their properties are free from contamination.

As a federal Crown corporation, FCC is also a federal authority with accountabilities under the Canadian Environmental Assessment Act, 2012 (CEAA 2012). We don't provide financing to projects or activities that will cause significant adverse environmental effects.

The CEAA 2012 (sections 67 to 69) states that federal authorities must not carry out or permit projects to be carried out on federally owned lands or outside Canada, unless the federal authority determines the project isn't likely to cause significant adverse environmental effects or the Governor in Council decides that the effects are justified under the circumstances. FCC must report any environmental assessments regarding projects on federally owned lands or outside Canada.

Corporate governance

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act. Like other Crown corporations, we're subject to laws such as the Privacy Act, Access to Information Act, Canadian Labour Code, Federal Accountability Act, Employment Equity Act and Official Languages Act.

FCC is accountable to Parliament through the Minister of Agriculture and Agri-Food. We report to Parliament and Canadians on our operations through our annual report, corporate plan summary and quarterly financial reports, and our Board of Directors provides oversight to ensure we're serving the industry and Canadians.

We build relationships with our customers, partners and stakeholders to better understand and support the needs of the agriculture industry. We also look to a variety of stakeholders and partners for guidance and expertise in public sector governance practices.

FCC representatives regularly meet with partners at Agriculture and Agri-Food Canada, the Treasury Board of Canada Secretariat, the Department of Finance and other federal Crown corporations to ensure our policies and procedures are current and sound. We communicate with Export Development Canada and Business Development Bank of Canada to share ideas and best practices about ways we can work together to benefit customers. We also seek opportunities to work with banks and credit unions to meet our customers' financial needs.

Board of Directors

The FCC Board of Directors represents Canadians and the breadth of the agriculture industry. Its expertise contributes significantly to the corporation's mandate and strategic direction. The Board ensures FCC remains focused on our vision, mission and values, and fulfilling our public policy role.

Board members are appointed by the Governor in Council upon the recommendation of the Minister of Agriculture and Agri-Food. Except for the President and CEO, Board members are independent of management.

FCC and the Board are fully compliant with the government's new process regarding the appointment of directors to fill current and future vacancies. In 2016-17, FCC worked with the Deputy Minister's and Minister's offices to develop the director profile, notice of opportunity, selection criteria and advertising approach with a view to attracting a diverse pool of qualified candidates.

The Board is responsible for the overall governance of FCC. It ensures business activities are in the best interests of the corporation and the Government of Canada. Board members participate in the strategic planning process and approve FCC's strategic direction and corporate plan. The Board also exercises its responsibility to ensure risks associated with FCC's business have been identified. The Board ensures appropriate authorities and controls are in place, risks are properly managed and the achievement of the corporation's goals and objectives is not in jeopardy.

The Board is responsible for six major areas:

- integrity – legal and ethical conduct
- strategic planning and risk management
- financial reporting and public disclosure
- leadership development
- government relations and corporate social responsibility
- corporate governance

Senior FCC managers work closely with the Board to ensure the Board is fully aware of the corporation's affairs. The Chief Financial Officer, the Chief Operating Officer and the Chief Risk Officer attend every Board meeting. Other members of the Enterprise Management Team also attend meetings on a rotating basis to strengthen the relationship between the Board and management.

Time is set aside at each meeting for the Board and its committees to meet without management present.

The Board follows a formal approach to the President and CEO's goal setting and performance review. This approach is consistent with the Performance Management Program established by the Privy Council Office.

The Board regularly reviews FCC's compensation structure and annually reviews the compensation of the Enterprise Management Team.

In January, the Board met with the President and CEO in a two-day meeting to discuss the economic outlook for agriculture, emerging trends in the financial services industry and changing customer expectations and desires. The session helped us refine our vision for the future of FCC and agriculture in Canada.

Each year, the FCC Board of Directors hosts an annual public meeting in August where we report our activities and financial results and listen to feedback from interested stakeholders and the Canadian public about our mandate and strategic direction.

Code of conduct, ethics and values

At FCC, acting with integrity and maintaining the highest ethical standards are vital priorities. On appointment and every year during his or her tenure, each director signs a declaration committing to act in accordance with FCC's Code of Conduct and Ethics.

The Board has also established a process to directly disclose any potential violations of the code by the President and CEO or his direct reports, and a policy that specifies how to address situations where a director has a conflict of interest. FCC's Integrity Officer discloses all possible violations of the code and discusses ongoing employee education and awareness with the Board annually. All employees are required to participate in an online training program each year to ensure they understand and apply the Code of Conduct and Ethics.

Board composition

The Board is composed of 12 members, including the President and CEO and the Chair. They bring a combination of agriculture, business and financial experience to the task of governing a corporation that serves an increasingly complex industry.

The Board has four subcommittees: Audit, Corporate Governance, Human Resources and Risk.

Audit Committee

Chair: Jane Halford
Members: Don Bettle, Jamie Muir, Doris Priddle and Jason Skinner

Audit Committee members are independent of FCC management. All members are financially literate and the committee chair is considered a financial expert.

The Audit Committee oversees the integrity, accuracy and timeliness of FCC's financial performance and audit functions.

In addition to meetings with management, the committee meets independent of management with representatives of the Office of the Auditor General (OAG) of Canada and FCC's internal auditors.

The Board is committed to financial transparency. The OAG audits FCC's financial statements every year and attends all Audit Committee meetings. The OAG also performs a special examination at least every 10 years. The purpose of the special examination is to ensure FCC's systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively. The most recent special examination of FCC was completed July 31, 2012. The full report is available on FCC's public website.

Corporate Governance Committee

Chair: Don Bettle
Members: Dale Johnston (Board Chair), Sylvie Cloutier, Jamie Muir and Doris Priddle

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices. It oversees FCC's strategic planning process and corporate social responsibility program. It also acts as the Board's nominating committee.

The committee regularly reviews the number, structure and mandate of Board committees, and is responsible for evaluating the performance of Board members, committees and the Board as a whole. The committee also oversees FCC's policies on ethics, conflicts of interest and codes of conduct for employees and Board members.

Human Resources Committee

Chair: Brad Hanmer
Members: Dale Johnston (Board Chair), Sylvie Cloutier, Collin May and Brenda Schoepp

The Human Resources Committee reviews all major human resources policy matters. The committee is responsible for advising the Board of the skills and characteristics essential to the President and CEO position and how to assess his performance. It also works with the President and CEO to create his annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's compensation structure, pension plans, succession plan, corporate learning programs for employees and executive perquisites program.

The Board and FCC are committed to offering employees a compensation, benefits and pension package that is fair, competitive and sustainable over the long term. FCC reviews the total compensation package annually and presents the results to the committee for approval.

FCC's Human Resources team compares the corporation to a consistent group of public and private organizations comparable in size, geography, industry or sector. The goal is to maintain a competitive market position in terms of compensation. Total cash compensation includes base pay and pay-at-risk. FCC does not offer long-term incentives.

Risk Committee

Chair: Jason Skinner
Members: Jane Halford, Brad Hanmer, Collin May and Brenda Schoepp

Risk Committee members are independent of FCC management. The Risk Committee has a broad mandate to assist the Board in fulfilling its oversight responsibilities of risk management.

FCC has an established enterprise risk management process designed to identify potential events that may affect business operations. The committee helps define the corporation's overall risk appetite and sets risk tolerances against which the business is measured, monitored and controlled. The committee is also responsible for reviewing and approving the corporation's risk management policies and overseeing its performance against the risk appetite.

Board performance

Upon appointment to the Board, each director receives a detailed orientation and meets with senior management to learn about FCC. Directors also regularly visit customer operations and attend employee meetings, as well as conferences and seminars relevant to corporate governance and FCC's business. Some are also involved in director certification programs.

The Board regularly assesses its collective performance and the individual performances of its directors through a structured self-evaluation process. Position profiles for the Chair and individual directors are reviewed annually to ensure they accurately describe desired competencies and skills. Gaps are addressed through new appointments, training, and hiring outside experts to assist the Board in its review of technical or specialized issues.

Compensation

Directors are paid an annual retainer and per diem amounts established by the Governor in Council, pursuant to the Financial Administration Act. Rates were last set on January 8, 2008:

- The Board Chair receives an annual retainer of $12,400.[1]
- Committee chairs receive an annual retainer of $7,200.
- Other directors receive an annual retainer of $6,200.
- All directors, including the Chair, receive a per diem of $485 for meetings, training sessions, travel time and FCC-sponsored events.
- Directors are reimbursed for out-of-pocket expenses, including travel and accommodation while performing their duties. Board members are subject to the same travel expense policy as FCC employees. Board members receive per diems for meals and incidentals rather than reimbursement for actual expenses paid.

During 2016-17, there were six Board meetings and 20 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $146,943.

Total Board travel and related expenses were $125,021, compared to $123,706 in 2015-16.

[1] As a former member of Parliament, Dale Johnston is subject to the Members of Parliament Retiring Allowances Act. His total annual remuneration is capped at $5,000.

2016-17 Board remuneration, attendance and expenses

Director	Board retainer (A)	Per diems (B)	Total remuneration (A & B)	Board meeting attendance	Committee meeting attendance	Board travel and related expenses
Donald Bettle	$ 7,200	$ 12,610	$ 19,810	6 of 6	10 of 10	$ 18,685
Sylvie Cloutier	6,200	9,700	15,900	6 of 6	7 of 7	17,672
Jane Halford	7,200	8,973	16,173	6 of 6	11 of 11	6,350
Brad Hanmer	7,200	0	7,200	2 of 6	4 of 8	394
Dale Johnston	4,999	0	4,999	6 of 6	8 of 8	12,446
Collin May	5,167	5,820	10,987	4 of 5	7 of 7	7,926
Jamie Muir	6,200	14,550	20,750	6 of 6	11 of 11	22,040
Doris Priddle	6,200	9,215	15,415	5 of 6	9 of 10	18,547
Brenda Schoepp	6,200	11,640	17,840	6 of 6	8 of 9	11,050
Jason Skinner	7,200	10,670	17,870	6 of 6	11 of 11	9,911
Total	**$ 63,766**	**$ 83,178**	**$ 146,943**			**$ 125,021**

There were six Board meetings, including one strategic planning session off-site, as well as seven Audit, four Human Resources, four Corporate Governance, and five Risk meetings.

Enterprise Management Team

FCC has attracted a senior team of professionals with diverse talents and experience who are responsible for managing FCC effectively. Our Enterprise Management Team members are sought after as best-practice leaders in their professions and they actively volunteer in their communities. Each member of the team believes that a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers.

The Enterprise Management Team is responsible for business results and corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues. All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies approved by the FCC Board of Directors. The Governor in Council establishes the President and CEO's compensation.

In 2016-17, the salary range for the President and CEO was set at $257,900 to $303,400. There are two salary ranges for Executive Vice-Presidents. One range is set at $194,785 to $286,445 and the second range is set at $223,855 to $376,195. In addition, all executives receive a variable pay component linked to the performance of the corporation, division and individual.

Board of Directors*

Dale Johnston
Owner/operator, mixed farming operation
Ponoka County, Alta.
Appointed June 23, 2011
Appointed Board Chair December 13, 2017

Michael Hoffort, P.Ag., ICD.D
President and CEO, FCC
Regina, Sask.
Appointed July 1, 2014

Donald Bettle
Owner, cow-calf operation and woodlot
Passekeag, N.B.
Appointed January 25, 2007
Reappointed February 10, 2010 and February 10, 2013

Sylvie Cloutier, BA Comm.
President and CEO, Council of Food Processing and Consumer Products
Bromont, Que.
Appointed April 5, 2012
Reappointed April 5, 2015

Jane Halford
Co-founder of BOLT Transition
Edmonton, Alta.
Appointed December 15, 2014

Brad Hanmer, B.Sc.Ag.
Co-owner/operator, commercial grain and pedigreed seed farm
Govan, Sask.
Appointed January 25, 2007
Reappointed February 10, 2010 and February 10, 2013
Resigned April 27, 2017

Collin May
Lawyer
Calgary, Alta.
Appointed November 7, 2013
Resigned January 31, 2017

Jamie Muir
Retired
Truro, N.S.
Appointed November 7, 2013

Doris Priddle, MBA
Owner, Priddle Farms Inc.
Toronto, Ont.
Appointed November 26, 2012
Reappointed November 26, 2015

Brenda Schoepp
Owner, cattle and equine rescue farm
President and CEO, Brenda Schoepp & Associates
Publisher-owner, BEEFLINK
Rimbey, Alta.
Appointed February 10, 2013

Jason Skinner, M.Sc., P.Ag.
CEO, North West Terminal Ltd.
Wilkie, Sask.
Appointed February 12, 2009
Reappointed March 1, 2012 and March 1, 2015

Enterprise Management Team*

Michael Hoffort President and Chief Executive Officer	**Rick Hoffman** Executive VP and Chief Financial Officer	**Sophie Perreault** Executive VP and Chief Operating Officer	**Corinna Mitchell-Beaudin** Executive VP and Chief Risk Officer
Travis Asmundson Executive VP and Chief Information Officer	**Greg Honey** Executive VP and Chief Human Resources Officer	**Todd Klink** Executive VP and Chief Marketing Officer	**Greg Willner** Executive VP, Law and Corporate Secretary

*Biographies are available at fcc.ca

Corporate social responsibility

As Canada's leading agriculture lender, we're passionate about helping the industry succeed. We're committed to our customers through good times and bad, support rural Canada and build an engaged workforce. We believe operating in a socially, economically and environmentally sustainable way is an investment in the future.

For details on FCC's corporate social responsibility performance, visit fcc.ca/CSRReport.

Our corporate social responsibility framework includes five focus areas*:

Agriculture and food

We provide knowledge and education, support initiatives and form partnerships that make the industry stronger.

» 11,695 attendees gained knowledge and skills at FCC events

Community

We foster strong and vibrant communities where our customers and employees live and work, with a focus on rural Canada.

» 6.7 million meals collected through FCC Drive Away Hunger

Customers

We provide financing and services for primary producers, suppliers and processors along the agriculture value chain.

» 233 customers supported through the FCC Ag Crisis Fund

Employees

We foster a culture of accountability, partnership and diversity and deliver an exceptional employee experience.

» FCC has appeared on Aon Hewitt's Best Employers in Canada list 14 years in a row

Environment

We improve our environmental performance and support the industry with tools and knowledge to do the same.

» 94% of employees believe FCC is a socially and environmentally responsible organization

FCC corporate social responsibility performance

Each year, we report on our corporate social responsibility performance in the areas listed above. This information is prepared using the Global Reporting Initiative's sustainability reporting guidelines. The Global Reporting Initiative is a non-profit organization that promotes economic sustainability and provides a comprehensive sustainability reporting framework that's widely used around the world.

We're proud of our progress and our ability to move our corporate social responsibility goals forward so we can continue to make a positive impact on Canadian agriculture.

*Results as of March 31, 2017

Management's discussion and analysis

Economic environment **18**

Agriculture industry overview **19**

Sector overview 20
Current and potential impacts for FCC 23

Strategic overview **24**

FCC 2016-17 corporate strategy map 25
Sustainable business success 26
Great customer relationships 28
Execution excellence 30
Effective enterprise risk management 32
High-performance culture 33
2017-18 strategy 34
FCC 2017-18 corporate strategy map 35

Financial highlights **36**

Financial performance review **37**

Consolidated operating results 37
Business lines 41
Financial position 46

Enterprise risk management **54**

Risk governance 54
FCC's risk categories 57

Caution regarding forward-looking statements

This management's discussion and analysis (MD&A) includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates.

Basis of preparation of financial information

FCC's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The MD&A is intended to be read in conjunction with the March 31, 2017, Consolidated Financial Statements and the corporate plan documents.

Economic environment

Global economic trends shape the business environment of Canadian agricultural operations, food processors and input suppliers. While 2016 was notable for events that created some uncertainties regarding globalization and world trade, the overall economic climate remained favourable for the entire agri-food supply chain.

Demand for agriculture commodities remains strong

The global economy expanded at an estimated pace of 3.1% in 2016, slightly under the previous year's rate of economic expansion, and revealed some sharp contrasts in growth – advanced economies slowed down while emerging markets grew at a higher rate than the previous year. This has significant implications for the global demand for food and agricultural commodities, which has remained strong. Higher incomes in emerging market economies raise the demand for animal-based proteins and processed food products as consumers allocate their additional income to food spending.

China imports more than 65% of soybeans that are traded, and it's also the largest hog-producing country in the world. These are only two examples of the weight China carries in the global agricultural market. China's gross domestic product (GDP) grew at an annual rate of 6.7%, a slower pace than the five-year GDP average of 7.9% (2011 to 2015), but this had limited effect on demand for agriculture commodities and food. Disposable income of Chinese consumers grew at an annual rate of nearly 7.8% in 2016, while inflation remained low and stable. China continued to be a growing market for Canadian agriculture as Canadian pork exports climbed 185% in 2016 over the 2015 value.

India is another economy that has a great impact on agricultural markets. Economic growth of 6.8% in 2016 resulted in a strong demand for Canadian pulses and other commodities.

The U.S. economy represented one bright spot in 2016 among all advanced economies. Impressive job creation and wage increases led to higher disposable income. The Federal Reserve raised its key interest rate for a second time in the last two years. While a modest monetary policy response by historical standards, this represents a departure from the low interest rate environment of the last eight years. The strong economic performance continued to support a strong U.S. currency and ultimately drove pressures on U.S. farm income.

Decline in Canadian dollar benefits farm income

The Canadian economy grew at an estimated annual rate of 1.4% in 2016. The pace of economic activity remains slower than the full potential of the Canadian economy due to muted business investment and slow export growth. While the Bank of Canada chose to keep its key interest rate unchanged throughout 2016, borrowing costs remained relatively steady, ranging between 2.64% and 3.16%, encouraging agricultural operations and agribusinesses to leverage growth opportunities and make investments.

The price of oil continued to rise throughout 2016, but remained significantly below the average of the last five years. Weaker commodity prices and low interest rates kept the value of the Canadian dollar against the U.S. dollar at a level below the five-year average. Overall, Canadian agriculture benefits from a low dollar as it supports farm revenues by lifting prices paid to Canadian producers and making Canadian products competitive in the world market. Although some input prices (machinery and equipment) have been driven higher, the weaker Canadian dollar supported strong profit margins for Canadian crop, livestock and food processing sectors.

Agriculture industry overview

FCC advances the business of agriculture by lending money to all agriculture sectors, including primary producers, agribusinesses and food processors. We monitor several important factors that influence the short and long-term prospects, profitability and financial health of each sector.

Canadian farms remain on average in a strong position to meet their financial obligations. Despite a softening of world agriculture commodity prices, the weaker Canadian dollar supported strong farm income in both livestock and crop sectors. The value of farm assets continues to climb, with debt at manageable levels because of strong income.

Overall primary agriculture profitability is stable

A common theme in agricultural markets for 2016 has been production growth. Available global supply of major crops like corn, soybeans and wheat climbed in 2016, putting downward pressure on prices. The supply of animal-based proteins in North America also increased, pushing cattle and hog prices lower.

Pressure on prices kept the increase in overall farm cash receipts in 2016 to 0.5% over the record-high figure reached in 2015. Crop receipts increased 5.8% in 2016, offsetting the 7.2% decline in livestock receipts over 2015. Farm cash receipts increased in all provinces except B.C., Alberta, Saskatchewan and Nova Scotia.[3]

Farm input prices were on average lower in 2016 than the price level observed at the end of 2015. Machinery and equipment were up, while fertilizers and feed were down. Oil prices climbed, yet diesel average prices fell 9.1% in 2016 compared to 2015, and natural gas prices declined 22.8%. Reduced energy costs improved producer profit margins.

Farmland values reach record highs

Strong farm cash receipts and low interest rates have allowed producers to leverage opportunities to continue growing their farm operations. As a result, farmland values increased an average of 7.9% in 2016. When we look at farmland values over time, the rate of increase has slowed for the fourth consecutive year, in line with trends in farm cash receipts.

Farm debt climbs at a faster pace than asset values

Total farm debt reached $96.0 billion at the end of 2016.[4] Farm debt grew 7.3% in 2016 and has increased at an average annual rate of 6.3% over the 10-year period from 2007 to 2016, as producers sought to increase investments to grow their farm operations and remain productive. The value of total farm assets climbed 5.0% in 2016.

Trade expands for Canadian agriculture and agri-food

Exports are the foundation of Canada's success as an agricultural producer. With a small population and vast arable land, we must export the production we can't consume. Canada is the fifth-largest exporter of agriculture and agri-food products in the world.

The U.S. market accounted for 54.4% of Canadian agriculture and agri-food exports in 2016, compared to 57.4% in 2006.[5] With strong growth in emerging markets such as China and India, Canada is likely to continue to diversify its exports away from the U.S. market.

[3] Statistics Canada, Table 002-0002 – Farm cash receipts, quarterly (dollars), CANSIM (database).
[4] Statistics Canada, Table 002-0008 – Farm debt outstanding, classified by lender, annual (dollars), CANSIM (database).
[5] Statistics Canada, based on NAICS Codes.

The landscape for world trade has evolved in 2016 in response to a strong pushback against globalization in different parts of the world. Yet Canada is moving forward implementing the Comprehensive Economic Trade Agreement with the European Union, promising to open opportunities for Canadian exports of red meats, grains and oilseeds, and processed foods.

Canadian food preferences continue to evolve

Canadian consumers have an increasing influence on the agri-food supply chain. Preferences of Canadian households have evolved toward healthy and convenient foods, leading producers and processors to develop food products with specific nutritional value and various attributes. This opens up new supply chains and profit opportunities for the entire supply chain. Livestock producers continue to meet expectations of consumers with regard to animal welfare, developing and implementing new codes of practice.

Sector overview

Cattle prices remain high, but trending toward long-term average

Cash receipts for cattle and calves decreased 17.7% in 2016 from 2015. Beef production continues to expand in North America as animal weights climb and cattle inventories trend upward in the United States. Larger supply led to a reduction in U.S. cattle prices, which subsequently transferred to the Canadian market. The decline of the Canadian dollar mitigated the price pressures for Canadian producers, while overall strong demand for Canadian cattle resulted in a domestic price that was relatively strong from a historical standpoint. Overall profitability of cow-calf operations has remained positive while feedlot operations recorded tighter margins and some losses for most of 2016.

Challenges and opportunities ahead for the dairy industry

The consumption of butter, cream and yogurt in Canada is trending upward. Canadian stocks of butter in 2016 remained low despite increased production and special permits to import foreign butter. A higher demand for butterfat stemming from stronger consumption trends created a challenge for the industry regarding the resulting surplus of skim milk. This surplus was compounded by imports of dairy ingredients (proteins). Cheaper imports displaced domestic proteins normally used in the production of cheese and yogurt toward lower-value milk classes such as animal feed. In addition, world dairy prices remained low in 2016, despite milk production cutbacks in New Zealand and the European Union. This kept the price paid to producers in some specific milk classes (mostly milk in Class 5) low, ultimately keeping the farm price of milk lower than the five-year average. Stakeholders in some provinces developed their own ingredient strategies to respond to current marketing challenges, which ultimately led to a national agreement to modernize the milk marketing system. Implementation of the national strategy is still pending.

Grain and oilseed production second-highest in Canadian history

Total Canadian grain and oilseed production in 2016 was estimated to be 131.4 million metric tonnes, a 10.3% increase from 2015 levels. This is the second-highest production level on record, despite portions of Western Canada experiencing excessive moisture conditions and regions in Central and Eastern Canada experiencing dry conditions. Overall, crop yields were average to above average, although quality was mixed.

Wheat, canola, corn and soybean prices for the year were below their five-year historical averages. Projections are that world inventories of corn and soybeans will be higher at the end of the 2016-17 crop year due to record U.S. 2016 production. Producer margins continued to tighten in 2016-17, but have remained positive on average. The lower Canadian dollar helped compensate for the lower prices listed in U.S. dollars in the North American market. Yet moisture conditions in Western Canada created quality issues that negatively impacted producers' revenues.

AAFC's 2017 Canadian Agricultural Outlook and the United States Department of Agriculture Agricultural Projections to 2026 state that grain and oilseed prices will likely remain above their respective historical averages. This will be driven by increased demand from developing countries for coarse grains and oilseeds, along with domestic demand from livestock producers, biofuel manufacturers and vegetable oil crushers.

Greenhouse, nursery and floriculture producers post higher revenues

Greenhouse, nursery and floriculture operations recorded profits, supported by strong cash receipts and low natural gas prices. Cash receipts from greenhouse vegetables were 3.6% higher in 2016 compared to 2015. Receipts for field vegetables increased 6.5%, while floriculture receipts declined 7.1%.

The North American demand for greenhouse products remains strong. Although production acres are increasing annually, the volume is simply keeping pace with consumer demand. Canadian operations are facing increased competition as Mexico and other countries increase their acres under glass. However, the value of the Canadian dollar continues to be favourable for Canadian greenhouses, pushing prices up along the entire Canadian supply chain.

Hog producers facing pressures amid strong demand for Canadian pork

Profit margins of hog producers in 2016 declined, especially in the second half of the year. This is mostly the result of lower prices due to a strong increase in U.S. hog production and limited packers' capacity to process all hogs. However, the decline in the Canadian dollar as well as lower feed prices protected producers from even tighter margins.

Canadian hog inventories were up 1.6% on January 1, 2017, compared to January 1, 2016.[6] Federally and provincially inspected hog slaughter increased by 0.4% in 2016 compared to 2015.[7] Live hog exports to the United States declined 9.1% in 2016. The demand for Canadian pork in China skyrocketed as a result of a smaller Chinese herd, with pork exports more than doubling in 2016 over the 2015 volume.

Poultry and egg production is stable

Canadian chicken slaughter increased 3.4% in 2016 compared to 2015, which helped increase chicken cash receipts by 2.5% in 2016 over the 2015 level. Overall egg production increased 7.2% in 2016 compared to 2015 and total Canadian egg receipts were up 8.3%.[8]

[6] Statistics Canada, Table 003-0100 – Hogs statistics, number of hogs on farms at end of semi-annual period (head), CANSIM (database).
[7] Agriculture and Agri-Food Canada – Statistics and Market Information – Red Meat Market Information.
[8] Statistics Canada, Table 003-0022 – Production and disposition of eggs, monthly (layers unless otherwise noted), CANSIM (database).

Agribusinesses and food processors face challenging demand conditions

Agribusinesses provide inputs or goods and services to primary producers, while agri-food operations purchase and process the outputs of primary producers. Evolving consumer preferences continue to present opportunities for processors. Food manufacturing real GDP in December 2016 was up 5.0% over the December 2015 real GDP period.[1] The performance of the food manufacturing sector has outshined the performance of the overall Canadian manufacturing sector.

Food processors are nevertheless facing a few challenges. Canada's food manufacturing sector faces strong import penetration. The trade surplus with the United States for secondary beverage and food totalled $5.3 billion at the end of 2016. The trade deficit with the rest of the world reached a record-high $4.4 billion.

The two most commonly cited challenges in Canada's food sector are: 1) the growing regulatory challenge to bring products to the domestic market and then move them to global markets, and 2) the shortage of qualified labour and the difficulties recruiting, training and retaining workers.

Sales of new farm equipment experienced a significant downturn in 2015, and were also down 8.5% in 2016. Sales of four-wheel-drive tractors and combines were down 7.1% and 7.9% respectively compared to the previous year, due in part to exceptionally high sales prior to 2015, although pressures on farm income also contributed to the lower sales. Equipment dealers were generally able to compensate for lower new equipment sales with increased revenues from sales and service of used equipment.

[1] Statistics Canada, Table 379-0031 – Gross domestic product (GDP) at basic prices, CANSIM (database).

Current and potential impacts for FCC

Canadian agriculture is financially healthy and demand for agriculture commodities remains strong despite changing global economies. FCC experienced growth this year in most major business lines, including primary production, agri-food operations and agribusinesses, and anticipates continued growth in the agricultural sectors and our lending portfolio across all sectors. We balance risk by having a well-diversified lending portfolio and we achieve this by financing customers involved in all areas of agriculture across Canada.

FCC has experienced 24 consecutive years of portfolio growth. A key element of continued financial viability is prudent cost management and operational efficiency balanced against the requirements of a growing enterprise. We maintain our track record of efficiency and strong financial performance, and we operate in a manner that is mindful of the climate of fiscal constraint. We are committed to making investments in technology and digital solutions to continue to focus on delivering services in an efficient manner and optimizing how the corporation operates enterprise-wide.

FCC remains financially strong. Along with almost $6.0 billion in equity and loan loss reserves, we continue to enhance our strong risk management practices to keep pace with the growing complexity of the business. FCC manages capital in compliance with our Board-approved capital management policy and framework, and we currently operate above the targeted capital level resulting in a dividend payment of $268.3 million to the Government of Canada in 2016-17.

FCC continues to closely monitor external and internal trends, assess their implications and create proactive strategies to address those implications.

Strategic overview

Our strategic direction is aligned with our mandate, including our mission and vision, and with the direction from the Government of Canada and the Minister of Agriculture and Agri-Food's mandate letter[10] received August 31, 2016.

To achieve our vision and mission, we've developed objectives and initiatives that are categorized under five themes. These themes – sustainable business success, great customer relationships, execution excellence, effective enterprise risk management and high-performance culture – are based on FCC's strategic assets. Strategic assets are the reasons customers choose FCC over our competitors. They can't be easily duplicated and are essential to the corporation's long-term success. Together, these five themes form the foundation of our business strategy, as illustrated on FCC's strategy map on the following page.

Within each theme, FCC sets one- to five-year plan performance measures (Plan) that define how we'll measure our progress each year against the objectives set out in the strategy. The overall approach for 2016-17 was to stay the course, with an enhanced focus on the customer experience.

We use a corporate scorecard to monitor and measure progress against our strategy. When we accomplish our corporate objectives within the five themes, FCC is successful and we achieve our vision and mission.

[10] FCC's mandate letter is available on the Agriculture and Agri-Food Canada website http //www agr gc ca/eng/about-us/partners-and-agencies/farm-credit-canada-mandate-letter/?id=1475092618430

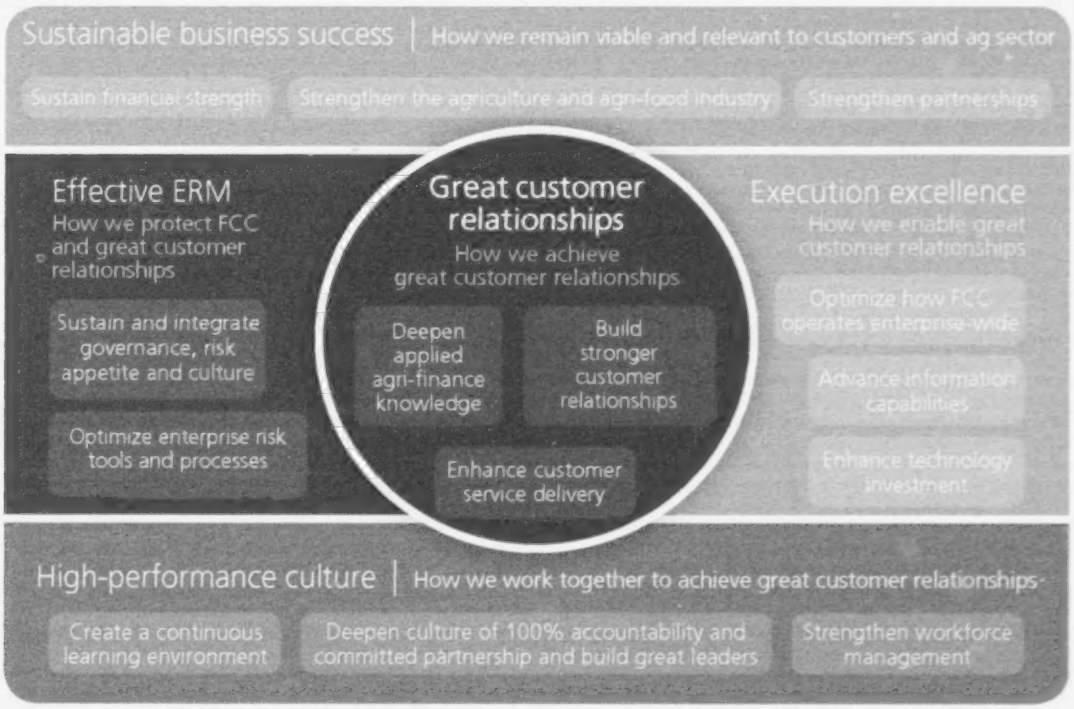
FCC 2016-17 corporate strategy map

Vision

The full agriculture and agri-food value chain believes FCC is *advancing the business of agriculture*.
We are *the* place to obtain financial products, services and knowledge tailored to producers and agribusiness operators.
Our customers are advocates of FCC and can't imagine doing business without us.
We are a socially and environmentally responsible corporation.
FCC is an employer of choice everywhere we operate.
We make it easy for customers and employees to do business.
We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.

Mission

To enhance rural Canada by providing specialized and personalized business and financial solutions to farm families and agribusiness.


Sustainable business success | How we remain viable and relevant to customers and ag sector
Sustain financial strength
Strengthen the agriculture and agri-food industry
Strengthen partnerships
Effective ERM
How we protect FCC and great customer relationships
Sustain and integrate governance, risk appetite and culture
Optimize enterprise risk tools and processes
Great customer relationships
How we achieve great customer relationships
Deepen applied agri-finance knowledge
Build stronger customer relationships
Enhance customer service delivery
Execution excellence
How we enable great customer relationships
Optimize how FCC operates enterprise-wide
Advance information capabilities
Enhance technology investment
High-performance culture | How we work together to achieve great customer relationships
Create a continuous learning environment
Deepen culture of 100% accountability and committed partnership and build great leaders
Strengthen workforce management

Sustainable business success

How we remain viable and relevant to customers

Performance Measures	2014-15 Result	2015-16 Result	2016-17 Plan	2016-17 Actual	2017-18 Plan	2018-19 Plan
Sustain financial strength						
Net income	$903.8 million	$615.5 million	$542.1 million	$613.8 million	$570.5 million	$566.1 million
Return on equity	20.7%	12.3%	9.8%	11.3%	10.2%	9.6%
Capital adequacy measure	15.6%	16.7%	17.5%	16.3%	16.3%	16.5%
Strengthen the agriculture and agri-food industry						
Young farmer lending	$2.4 billion	$2.63 billion	$2.45 billion	$3.2 billion	$2.89 billion	$3.09 billion
Percentage of customer count in small and medium-sized segments	94%	86%	>80%	80.8%	>80%	>80%
Strengthen partnerships[11]						

Key results – 2016-17 Corporate Plan objectives

Sustain financial strength

We're committed to remaining financially self-sustaining in the long term while investing in the agriculture industry and forging valuable partnerships. By ensuring we operate in a financially and socially responsible way, we can ensure that FCC is ready and able to serve the industry through both good and challenging times.

Three measures are used to gauge progress on this objective. Net income and return on equity exceeded Plan. FCC achieved a lower capital adequacy ratio than Plan as a result of amending our dividend policy to align to the capital management framework which also meets new expectations set out by the Department of Finance. Two corporate initiatives were identified for this objective. They were: developing a loan pricing framework and redefining the growth strategy. We have continued to refine our approach to pricing in 2016-17 with our initiative to develop a loan pricing framework. This initiative has focused primarily on enhancing FCC's internal systems and processes to better track and report on individual components and profitability within the loan price. A loan pricing framework was developed, defining the governance structure, principles and methodologies for loan pricing.

[11] In 2016-17, the media favourability index measurement was removed when the corporate objective shifted from "strengthen reputation" to "strengthen partnerships." The media favourability continues to be tracked, but is no longer an accurate measurement for the corporate objective.

The second initiative, to redefine the growth strategy, involves identifying the growth FCC wants to achieve to keep pace with the agriculture market. This initiative was achieved by setting and distributing targets across the lending operations that reflect this analysis and achieve the desired level of growth.

Strengthen the agriculture and agri-food industry

As a Crown corporation, we play an important role in filling financing gaps for Canadian producers and agribusiness operators. The agriculture industry is often affected by volatility in commodity prices, adverse weather conditions, livestock and crop diseases, and trade implications. We take a long-term view and remain committed to customers and the industry in difficult times by providing steady access to capital.

Two measures have been identified to track progress on this objective. The young farmer lending exceeded Plan and the percentage of small and medium-sized segments met Plan.

Two corporate initiatives were identified for this objective. The first corporate initiative was to align our higher purpose and mandate and develop and implement a plan to communicate both to our stakeholders. FCC focused on increasing our employees' connection to FCC's mandate and our higher purpose, as well as ensuring externally focused communication, messaging and promotions were created to better reflect FCC's mandate and higher purpose.

The second corporate initiative for this objective was to execute on the agribusiness and agri-food strategy that includes support for value-added production. Highlights from this initiative include the amendment to the loan eligibility policy to serve more of the agribusiness and agri-food sector. Also, a new Young Entrepreneur Loan was launched that offers financing of up to $1 million per qualified applicant under age 40, which can be used for the purchase or improvement of agriculture-related assets or the purchase of shares in an agriculture-related business, including those in the agri-food sector.

Strengthen partnerships

FCC acts as a catalyst to connect the agriculture industry to experts, communities and knowledge, strengthening relationships with stakeholders and increasing support for the agriculture industry through strong private sector and commercial Crown financial partnerships. There are no measures to track progress, however, two initiatives were established to deliver this objective.

The first initiative was to continue to advance stakeholder relationships. The initiative was designed to develop a co-ordinated, consistent and strategic approach to stakeholder engagement, enhance FCC's reputation and help the organization respond to risk and opportunities to support the Government of Canada's priorities. To achieve this initiative, FCC spoke at over 20 industry events to share knowledge and engage the industry on the topic of public trust and agriculture. FCC also serves as a connector for the industry by facilitating conversations among industry groups and individuals to address challenges and opportunities within agriculture.

The second initiative was to continue to advance the Agriculture More than Ever cause. A recent survey conducted with customers and non-customers who are connected to the agriculture industry indicated that awareness of the Agriculture More than Ever cause grew from 29% in 2013 to 50% in 2016. To achieve the initiative, Agriculture More than Ever launched the "Be Somebody" campaign to encourage those in the industry to add their voices to the cause by speaking positively about agriculture and the food conversation in respectful and meaningful ways.

Also, in support of this initiative, FCC launched Canada's Agriculture Day on February 16, 2017. This day brought together industry, government and consumers to create dialogue and awareness about Canadian food, and to celebrate and increase the positive perception of the agriculture industry.

Great customer relationships

How we achieve great customer relationships

Performance Measures	2014-15 Result	2015-16 Result	2016-17 Plan	2016-17 Actual	2017-18 Plan	2018-19 Plan
Enhance customer service delivery						
Easy to do business – CEI measure	63.7%	62.1%	62.5%	63.9%	62.5%	63.0%
Deepen applied agri-finance knowledge						
FCC Learning post-event survey – attendees "likely to use information"	N/A – new measure in 2016-17	N/A – new measure in 2016-17	≥ 4.0	4.7	≥ 4.0	≥ 4.0
Build stronger customer relationships						
Customer experience index	63.6%	62.8%	62.0%	64.6%	62.0%	62.5%

Key results – 2016-17 Corporate Plan objective

Enhance customer service delivery

We strive for lending processes that are efficient, integrated and consistent, allowing FCC to effectively manage risk while providing customers with an extraordinary experience. Progress on this objective is tracked through the easy to do business sub-index measure from the corporation's Customer Experience Index. FCC exceeded Plan on this measure.

One corporate initiative was planned for this objective – to define and implement the next FCC experience. As part of this initiative, FCC redefined the customer experience as a central focus for the organization throughout the fiscal year. To create an intentional end-to-end experience, customer experience principles were developed and distributed to employees. The principles set out expectations for how employees can best serve customers consistently. In addition, several initiatives were launched to improve systems and processes to better enable delivery of the customer experience.

Deepen applied agri-finance knowledge

We're proud of our knowledgeable lending team, which is responsive and solution-focused, understands agricultural risk and applies its knowledge every day to serve FCC's customers. FCC also supplements employee knowledge with publications for producers, and agribusiness and agri-food operators. FCC offers management workshops, learning forums and multi-media resources to ensure producers of all ages can access the training and information needed to succeed in the future. Progress on this objective is tracked through a new measure: FCC Learning post-event survey – attendees "likely to use information." In 2016-17, attendees rated 4.7 out of 5, which exceeded Plan.

Two corporate initiatives were established to meet this objective. The first initiative – to advance employee knowledge about agriculture-related issues – was achieved with the development of new content, some of which is featured on our new intranet, that includes sector-specific information as well as economic and policy sense-making.

The second initiative – to provide knowledge to advance customers' management capabilities – was achieved through the offering of several industry events and initiatives, as well as an Ag Economist blog, which featured ag economic outlooks and evolving economic issues. In 2016-17, FCC delivered five FCC Forum events, nine Ag Outlook events, and 76 Ag Knowledge events to more than 11,000 attendees across the country.

Build stronger customer relationships

Our approach to customer relationship management is proactive, innovative and highly disciplined. Customer feedback gathered through the Customer Experience Index (CEI) is analyzed and shared with front-line employees to promote continual learning that strengthens their relationships with customers. FCC exceeded Plan for the CEI in 2016-17.

The corporate initiative – to enhance the relationship management process – was our central focus for 2016-17 and was achieved through the creation of improved programming and content for our field office employees. The enhanced training approach included customized materials that contain industry-specific terminology and the ability for employees to obtain training sooner upon being hired at FCC.

Execution excellence

How we enable great customer relationships

Performance Measures	2014-15 Result	2015-16 Result	2016-17 Plan	2016-17 Actual	2017-18 Plan	2018-19 Plan
Optimize how FCC operates enterprise-wide						
Efficiency ratio	34.7%	35.2%	38.2%	36.6%	38.7%	39.3%
Employee engagement – Easy to do business	75.6% (1.8% below the average of the 50 Best Employers)	78.4% (0.4% higher than the average of the Platinum and Gold employers)[1]	Greater than the average of the Platinum and Gold employers	77.4% (0.8% lower than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	Greater than the average of the Platinum and Gold employers
Advance information capabilities						
Enhance technology investment						

Key results – 2016-17 Corporate Plan objectives

Optimize how FCC operates enterprise-wide

We continually seek better ways for employees to perform their work and to simplify interactions for customers. Two measures are used to track progress on this objective. A lower score indicates a favourable result and we exceeded the efficiency ratio Plan. We didn't meet Plan for the employee engagement – easy to do business score, which tracked 0.8% lower than the average of the Platinum and Gold employers. Although FCC's result for the employee engagement – easy to do business measure was slightly lower than the average, significant progress was made throughout the year to simplify processes and improve productivity. Work in these areas will continue in 2017-18.

Three corporate initiatives were identified to advance this objective. The first initiative – to improve productivity in our key processes – was achieved through the deployment of a series of internal enhancements, from system improvements to improved functionality of key programs, that make it easier for employees to do their jobs and for customers to interact with FCC.

The second initiative was to simplify and consolidate our system architecture. Much of the preliminary and strategic development has been completed on this initiative, paving the way for integration and implementation in 2017-18.

The third initiative – to implement the financial system strategy – was deferred pending evaluation of alternative approaches and availability of internal information technology resources.

Advance information capabilities

Further developing our corporate information management practices helps us become more efficient and effective. Currently there is no measure to track progress on this objective, however, two initiatives were identified to achieve this objective.

[1] AON Hewitt has moved from reporting the average of the 50 Best Employers, to providing data for Platinum and Gold employers. As a result, FCC will report against the Platinum and Gold employers' average.

The first initiative was to mature information and data management. Highlights from this initiative include the corporate adoption of Microsoft SharePoint to facilitate employee collaboration as well as enhance our use of cloud data management. In terms of information and data governance and management practices, FCC introduced improvements to the risk scoring system and financial close processes.

The second initiative – to define and implement a digital strategy – has seen significant development throughout the year. FCC's secure Online Services for customers has been revamped to provide an improved experience for customers to access information across all devices, including loan balances and statements. An innovation lab has been introduced to support the creation and execution of new digital products and services, such as the creation of a mobile app for customers. FCC Mobile for iPhone and Android will provide customers a quick, easy way to view loan information, manage their profiles, contact their relationship management team and access the best business advice from FCC's online knowledge library.

Enhance technology investment

To meet the ever-changing needs of our customers and the industry, it's important to keep up with technology and invest in our digital platform. Investment in technology enables agility, flexibility, responsiveness and security in technology platforms.

One initiative was identified to achieve this objective – to define technology and strategy lifecycle. Progress has been made in aligning on principles with regards to system lifecycles, including a mobile platform strategy. Further work will be ongoing throughout 2017-18.

Effective enterprise risk management

How we protect FCC and great customer relationships

Performance Measures	2014-15 Result	2015-16 Result	2016-17 Plan	2016-17 Actual	2017-18 Plan	2018-19 Plan
Sustain and integrate governance, risk appetite and culture						
ERM maturity measure	3.2	3.6	> 3.5	3.6	> 3.5	> 3.5
Optimize enterprise risk tools and process						

Key results – 2016-17 Corporate Plan objectives

Sustain and integrate governance, risk appetite and culture

We apply an enterprise risk management approach to manage risks across the corporation in a consistent, co-ordinated manner. The objective to integrate risk and risk governance into the organizational culture requires that employees understand the corporation's risk appetite statement and base decisions to take, avoid or accept risk within the spirit of the statement. We use an enterprise risk management (ERM) maturity measure to track progress on this objective and we met Plan with a score of 3.6.

One initiative – to further integrate enterprise risk management practices – was developed to achieve the objective. Work on this initiative continues, including activities to build a strong and integrated risk culture across the organization by creating ownership of risk at an employee level. Other highlights include completing assessments of and making improvements to risk and controls on approximately half of all work processes at FCC and maturing risk-based measurement and reporting capabilities.

Optimize enterprise risk tools and processes

We optimize enterprise risk tools and processes to effectively and consistently assess, quantify and aggregate risk. This enables employees to seize risk-taking opportunities in an efficient way while effectively and consistently managing the inherent risks – credit, strategic and operational. While there is no measure associated with this objective, there are two corporate initiatives created to further the objective.

The first initiative – to evolve risk management tools – was achieved through the execution of several projects that improve how we manage risk at FCC. Some examples include improvements made to credit policy and processes, credit risk assessment tools and FCC's strategy to combat fraud and money laundering.

The second initiative – to mature enterprise security – was achieved through the delivery of several mitigation and education tactics to improve our ability to protect against cyber-security breaches. Work on this initiative will continue in 2017-18.

High-performance culture

How we work together to achieve great customer relationships

Performance Measures	2014-15 Result	2015-16 Result	2016-17 Plan	2016-17 Actual	2017-18 Plan	2018-19 Plan
Deepen culture of 100% accountability and committed partnerships and build great leaders						
Leadership index: subset of employee engagement survey data with respect to leadership indicators	77.6% (5.8% above the average of the 50 Best Employers)	80.7% (7.2% Greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	78.7% (5.0% greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	Greater than the average of the Platinum and Gold employers
Employee engagement	79.0% (2.0% above the average of the 50 Best Employers)	83.0% (5.0% Greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	82.0% (4.0% greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	Greater than the average of the Platinum and Gold employers
Employee experience index: subset of employee engagement survey data related to employee experience	78.4% (3.2% above the average of the 50 Best Employers)	79.4% (3.8% Greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	78.2% (2.5% greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	Greater than the average of the Platinum and Gold employers
Strengthen workforce management						
Diversity measure	Net hire of -4	23 (11 were hired on a permanent basis, 11 on 6-month terms and 1 on a short-term basis)	Hire 16 new diversity candidates from the designated groups where we have gaps	32 (19 were hired on a permanent basis, 11 on terms and 2 on a short-term basis)	Hire 24 new diversity candidates from the designated groups where we have gaps	Hire 24 new diversity candidates from the designated groups where we have gaps
Create a continuous learning environment						

Key results – 2016-17 Corporate Plan objectives

Deepen culture of 100% accountability and committed partnership and build great leaders

Our culture of 100% accountability is the foundation of the overall employee experience and what enables us to deliver a great customer experience. To measure performance on this objective, we monitor and analyze overall employee engagement, as well as measures related to the employee experience and leadership at FCC. FCC exceeded Plan for the leadership index, employee engagement and employee experience measures.

One corporate initiative – to update and execute the leadership and culture strategy – was developed to further this objective. This strategy was developed and elements were rolled out throughout the year, including an enhanced leadership transformation program designed to deepen and strengthen leadership skills of formal leaders.

Strengthen workforce management

Workforce management is a strategic business process that helps FCC ensure the right talent is in place to deliver on business priorities. This process is essential to our continued success as it ensures the corporation has the knowledge, skills and abilities to meet our long-term goals. One of the elements of workforce management that we measure is diversity. We exceeded the Plan for this measure. Two corporate initiatives were identified to further this objective.

The first initiative – to review the employee experience infrastructure – was completed in 2016-17 and recommendations around the employee offering will be implemented over the next two years.

The second initiative – to review the diversity strategy – was completed in 2016-17. Highlights from the strategy include the introduction of the Indigenous Affinity Group, a network to foster inclusiveness and build indigenous cultural awareness at FCC, as well as participation in the Campus for All program, creating opportunities for people with cognitive disabilities to gain meaningful employment at FCC. Other tactics will be implemented in 2017-18.

Create a continuous learning environment

Our learning infrastructure supports employee knowledge requirements. The learning strategy is focused on agriculture and finance knowledge, on supporting employees to be agile learners, and ensuring FCC's learning programs, methods and delivery are current and focused on business and user needs.

One corporate initiative – develop and implement a comprehensive employee learning strategy – was designed to further the objective. A strategy was developed in 2016-17 that will transform learning at FCC to effectively support performance and business outcomes. The strategy is focused on agriculture and finance knowledge, supporting employees to be agile learners, leveraging new learning technologies, and ensuring FCC's learning programs and approach are modern, effective and focused on business and user needs. Implementation of the strategy has begun and will continue in 2017-18.

2017-18 strategy

For 2017-18, FCC will continue to focus on enhancing the customer experience. While the framework and foundation of the strategy map will remain similar to 2016-17, there have been some adjustments to the overall strategic approach. The themes will remain unchanged in 2017-18, however, corporate objectives have been updated and new corporate initiatives identified to advance work on the objectives.

As customers' needs and expectations evolve, so too must FCC's approach to how we serve our customers. Digital solutions, mobile capabilities and new streamlined products all support this evolution of FCC's customer experience.

For this planning period, FCC will continue to direct our efforts in all five areas, with a focus on enhancing the customer experience so that we can protect and grow our great customer relationships. FCC will investigate new services to support the needs of producers and operators. Investments in technology and digital solutions will allow customers to do business with FCC from anywhere, on any device. Enhanced technology will also enable employees to access knowledge and information to provide tailored advice to meet customers' needs.

FCC will benefit from simplified and evolved risk management tools and processes that enable employees to protect and grow customer relationships and advance the business while effectively managing the risks that are inherent to financial institutions. The employee experience will also be enhanced through the implementation of new learning, diversity and mental health strategies.

FCC will continue to use a corporate scorecard to monitor and measure progress against the corporate strategy. The 2017-18 FCC corporate strategy map is shown on the following page.

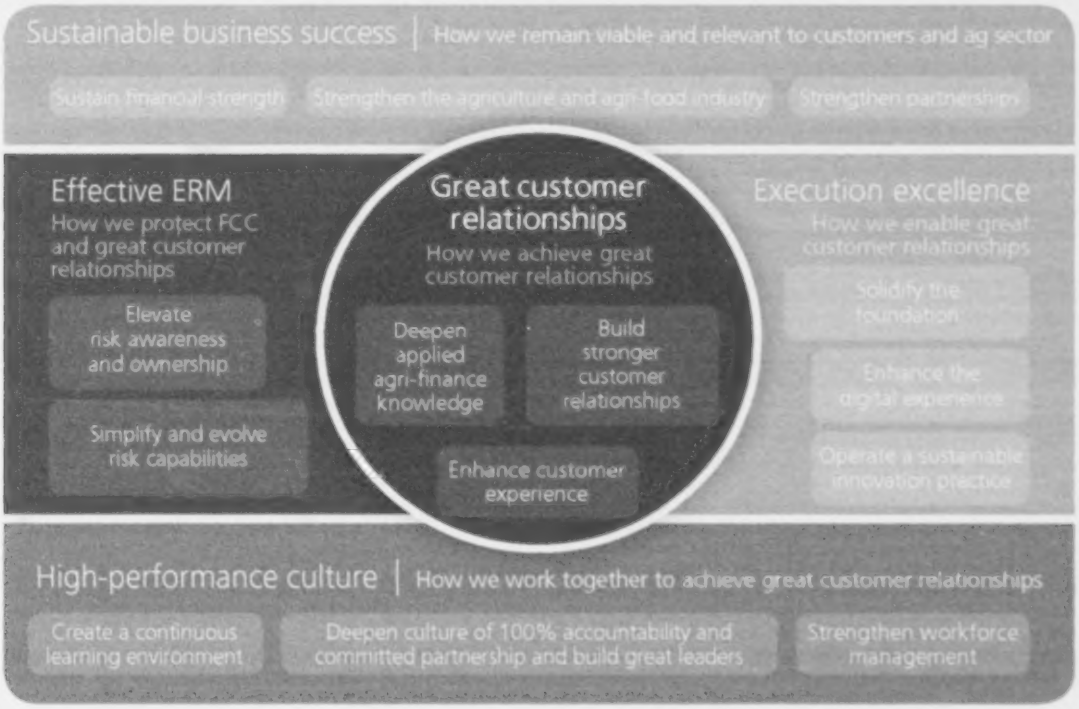
FCC 2017-18 corporate strategy map

Vision

The full agriculture and agri-food value chain believes FCC is *advancing the business of agriculture*.
We are *the* place to obtain financial products, services and knowledge tailored to producers and agribusiness operators.
Our customers are advocates of FCC and can't imagine doing business without us.
We are a socially and environmentally responsible corporation.
FCC is an employer of choice everywhere we operate.
We make it easy for customers and employees to do business.
We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.

Mission

To enhance rural Canada by providing specialized and personalized business and financial solutions to farm families and agribusiness.


Sustainable business success | How we remain viable and relevant to customers and ag sector
Sustain financial strength
Strengthen the agriculture and agri-food industry
Strengthen partnerships
Effective ERM
How we protect FCC and great customer relationships
Elevate risk awareness and ownership
Simplify and evolve risk capabilities
Great customer relationships
How we achieve great customer relationships
Deepen applied agri-finance knowledge
Build stronger customer relationships
Enhance customer experience
Execution excellence
How we enable great customer relationships
Solidify the foundation
Enhance the digital experience
Operate a sustainable innovation practice
High-performance culture | How we work together to achieve great customer relationships
Create a continuous learning environment
Deepen culture of 100% accountability and committed partnership and build great leaders
Strengthen workforce management

Financial highlights

FCC continued to produce strong financial results in 2016-17. Growth in loans receivable was $2.6 billion, or 9.0%, which was due to the strength of the agriculture industry and FCC's ability to keep pace through its focus on enhancing the customer experience. The number of loans disbursed was 49,352. Net interest income increased by $10.2 million and equity growth contributed to the maintenance of a sound capital position.

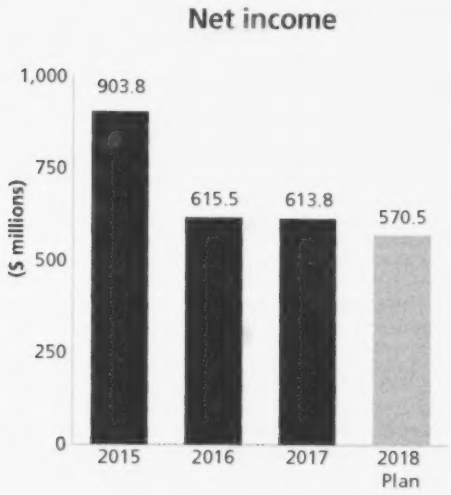
For the years ended March 31	2015	2016	2017
Loans receivable portfolio			
Number of loans	147,230	143,700	143,952
Loans receivable ($ millions)	27,309	28,656	31,221
Growth in loans receivable (%)	4.2	4.9	9.0
Impaired loans as a percentage of loans receivable (%)	1.1	0.8	0.6
New lending			
Number of loans disbursed	47,178	46,796	49,352
Term disbursements ($ millions)	4,239	4,479	5,607
Revolving disbursements ($ millions)	4,352	4,673	5,564
Consolidated balance sheet ($ millions)			
Total assets	28,616	29,951	33,014
Total liabilities	23,761	24,597	27,273
Total equity	4,855	5,354	5,741
Consolidated statement of income ($ millions)			
Net interest income	933.1	986.5	996.7
Provision for credit losses	(281.4)	42.6	19.3
Non-interest income	20.8	28.8	19.6
Administration expenses	328.7	352.4	371.1
Fair value adjustment	(2.7)	(4.8)	(12.1)
Net income	903.8	615.5	613.8

Financial performance review

Consolidated operating results

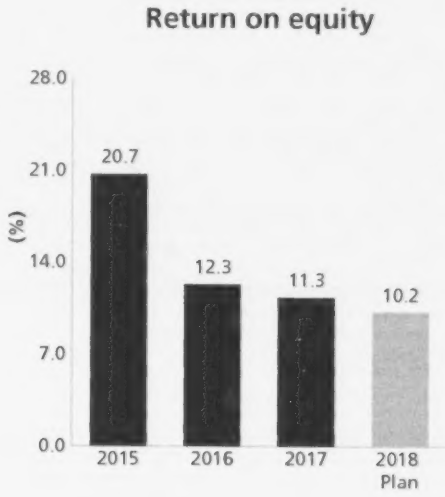
Net income overview

FCC's 2016-17 net income decreased by $1.7 million from the previous fiscal year primarily due to an increase in administration expenses, partially offset by a decrease in provision for credit losses and an increase in net interest income. Net income is projected to decrease by 7.1% in 2017-18 mainly due to increased provision for credit losses and administration expenses, offset by an increase in net interest income.



Return on equity

Return on equity decreased to 11.3% in 2016-17 from 12.3% in 2015-16 primarily due to increased equity growth and lower net income. Return on equity is projected to decrease to 10.2% in 2017-18 primarily due to lower net income.



Net interest income and margin

Changes in portfolio balance and net interest margin are the primary drivers of changes in net interest income. The following table contains historical net interest margins and interest rate spreads. Interest rate spreads are the difference between interest rates earned on interest-earning assets and interest rates paid on interest-bearing liabilities.

Net interest margin

As at March 31 ($ millions)	2015		2016		2017	
	Average balance	Rate	Average balance	Rate	Average balance	Rate
Earning assets:						
Fixed loan principal balance	$ 9,670.1	4.37%	$ 11,363.4	4.03%	$ 13,096.2	3.67%
Variable loan principal balance	16,899.6	3.94%	16,409.9	3.67%	16,692.8	3.60%
Investments	1,135.2	1.04%	1,293.0	0.67%	1,226.3	0.72%
Venture capital investments	26.5	5.69%	37.6	10.11%	55.0	10.01%
Total earning assets	$ 27,731.4	4.09%	$ 29,103.9	3.80%	$ 31,070.3	3.60%
Total interest-bearing liabilities	$ 23,349.3	0.86%	$ 24,247.1	0.49%	$ 25,709.6	0.48%
Total interest rate spread		3.23%		3.31%		3.12%
Impact of non-interest-bearing items		0.09%		0.01%		0.03%
Net interest margin		**3.32%**		**3.32%**		**3.15%**

In 2016-17, both variable and fixed interest lending rates decreased compared to 2015-16. The fixed lending rates continued a downward trend as new and renewed lending was impacted by the lower interest rate environment. Variable lending rates decreased slightly due to a full year impact of the decreased prime interest rate in the second quarter of 2015-16. In 2016-17, interest rates on the corporation's interest-bearing liabilities were similar to 2015-16.

The corporation funds a portion of its loan portfolio using its available equity. Non-interest-bearing items are contributing an additional return of 0.03% on average assets. This increased primarily due to a higher equity balance.

The following table outlines the year-over-year increases to net interest income, including those caused by changes in portfolio volume and net interest margin.

Net interest income and margin

For the year ended March 31 ($ millions)	2015	2016	2017	2018 Plan
Net interest income	$ 933.1	$ 986.5	$ 996.7	$ 1,028.1
Average total assets	28,104.4	29,748.8	31,635.7	33,083.1
Net interest margin (%)	3.32	3.32	3.15	3.11
Year-over-year change in net interest income due to:				
Increases in volume	34.7	45.0	70.7	50.8
Changes in margin	12.4	8.4	(60.5)	(19.4)
Total change to net interest income	**$ 47.1**	**$ 53.4**	**$ 10.2**	**$ 31.4**

FCC's net interest income increased by 1.0% in 2016-17 to $996.7 million. Average total assets increased by 6.3% to $31,635.7 million primarily due to increased loans receivable. Net interest margin decreased to 3.15% in 2016-17 due to fixed earning assets re-pricing in the lower interest rate environment. Net interest margin is expected to decrease to 3.11% in 2017-18 due to increased rates on interest-bearing liabilities and fixed earning assets re-pricing in the lower interest rate environment.

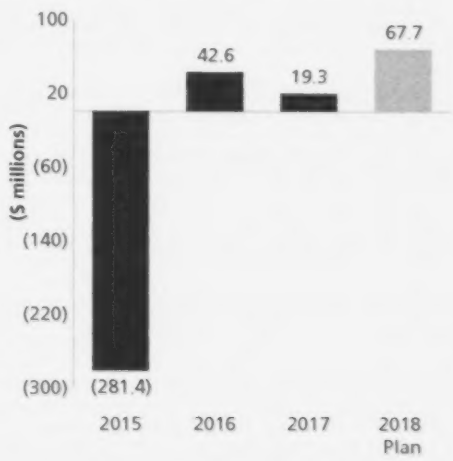
Non-interest income

FCC generated non-interest income of $19.6 million through FCC Insurance, FCC Management Software and investment in associates. This was a decrease compared to 2015-16 and was primarily due to decreased net income from investment in associates. Non-interest income is expected to be $23.1 million in 2017-18.

Provision for credit losses

The provision for credit losses decreased by $23.3 million from 2015-16 to $19.3 million in 2016-17 primarily due to strong portfolio health. In 2017-18, the provision is expected to increase to $67.7 million, mainly due to portfolio growth and changes to portfolio health. The allowance as a percentage of closing loans receivable is expected to be 0.8%.

Provision for credit losses



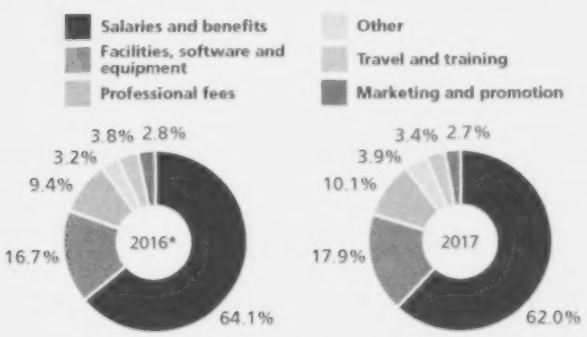
Administration expense

FCC's administration expenses represent the costs associated with day-to-day operations and the costs related to specific projects that support operations and the achievement of strategic objectives. The efficiency ratio measures the percentage of income earned that is spent on business operations and strategic objectives. FCC's efficiency ratio increased from 35.2% in 2015-16 to 36.6% in 2016-17 primarily due to increased administration expenses, partially offset by higher net interest income.

In 2016-17, the administration expenses increased from $352.4 million to $371.1 million primarily due to an increase in facilities, software and equipment and professional fees, as well as salaries required to support business growth, which were partially offset by decreased pension expense related to the defined benefit pension plan.

The chart below indicates more detailed categorization of the administration expenses. Salaries and benefits was the largest component representing 62.0% of the total administration expenses in 2016-17.

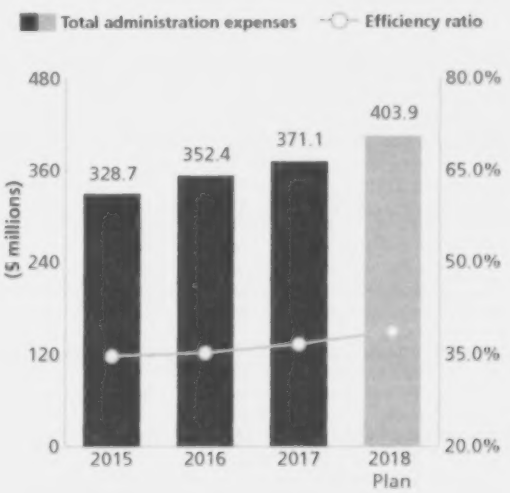
Administration expenses by category



*Certain comparative figures have been reclassified (see Note 28 of the Notes to the Consolidated Financial Statements for additional details).

Total administration expenses are projected to increase to $403.9 million in 2017-18 and the efficiency ratio is expected to rise to 38.7% mainly due to expected increases related to professional fees required to support initiatives to enhance the customer and employee experience at FCC, and general inflation partially offset by a higher net interest income. FCC will continue to focus on delivering services in an efficient manner and optimizing how it operates enterprise-wide.

Administration expenses



Fair value adjustment

Fair value is the estimated price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It can be estimated as the present value of cash flows adjusted for risk. FCC's fair value adjustment amount includes changes in the fair value of long-term debt designated at fair value, guarantees, derivative financial assets and liabilities, and Avrio Subordinated Debt Funds. Fair value adjustment decreased by $7.3 million in 2016-17 to ($12.1) million primarily due to a decrease in the fair value of financial instruments, which mainly related to fluctuations in interest rates. Fair value adjustment is expected to increase to ($9.1) million in 2017-18. For additional information regarding the calculation of fair value adjustment, refer to Notes 5, 20 and 21 of the Notes to the Consolidated Financial Statements.

Business lines

Overview

FCC provides financing, insurance, learning programs, software and other business services to producers, agribusinesses and agri-food operations. FCC serves more than 100,000 customers across Canada through its business lines, which include:

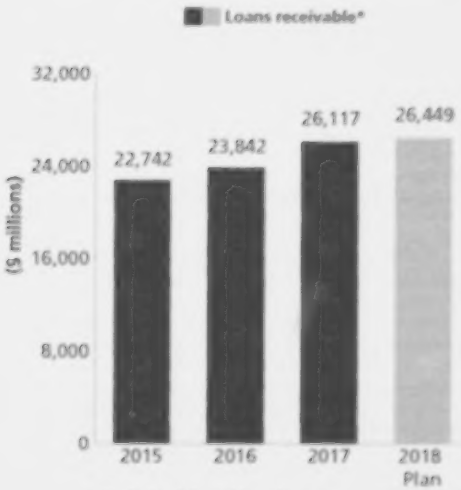
- primary production financing
- agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software

Each business line offers specific products and services tailored to address the needs of Canadian agriculture. Lending products include standard loans with variable or fixed interest rates and many term, amortization and payment frequency options. The primary driver of FCC's financial performance is lending activity conducted through primary production financing, agribusiness and agri-food financing, and FCC Alliances.

Primary production financing provides loans to primary producers and is FCC's largest business line. Customers with loans under this business line produce raw commodities such as crops, cattle, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. This business line also includes, but is not limited to, lending to vineyards, greenhouses, forestry and aquaculture.

Primary production financing was 83.6% of FCC's total loans receivable in 2016-17. Loans receivable for primary production increased $2,275 million from 2015-16, resulting in a portfolio of $26,117 million in 2016-17. The rate of loans receivable growth increased to 9.5% from 4.8% the previous fiscal year. Term disbursements of $4,676 million and revolving disbursements of $1,777 million were the main drivers of growth in primary production loans receivable. In 2017-18, loans receivable for primary production is expected to increase to $26,449 million.

Primary production financing

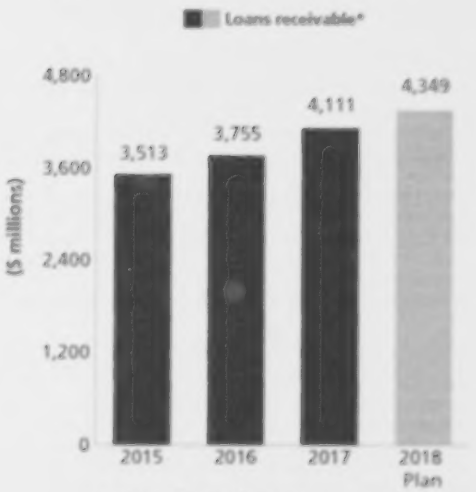


Excludes deferred loan fees.

Agribusiness and agri-food financing provides loans to customers who support primary producers. These customers are typically suppliers or processors who sell to, buy from, or otherwise serve primary agriculture producers. They also include, but are not limited to, equipment manufacturers and dealers, input providers, wholesalers and marketing firms.

Agribusiness and agri-food financing loans receivable increased 9.5% from 2015-16 to $4,111 million in 2016-17. Term disbursements of $871 million and revolving disbursements of $1,539 million were the main drivers of growth in agribusiness and agri-food loans receivable. In 2017-18, loans receivable for agribusiness and agri-food financing is expected to increase to $4,349 million.

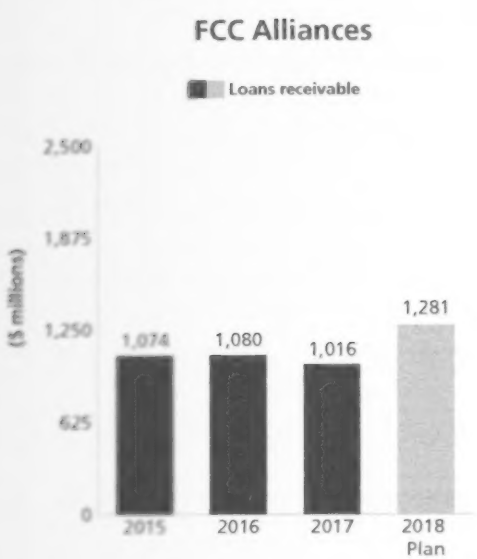
Agribusiness and agri-food financing



Excludes deferred loan fees.

FCC Alliances goes beyond traditional lending to provide financing to customers who do business through contractual relationships with equipment dealers, crop input retailers, co-operatives, livestock dealers and manufacturing partners. FCC Alliances lending products are short-term in nature.

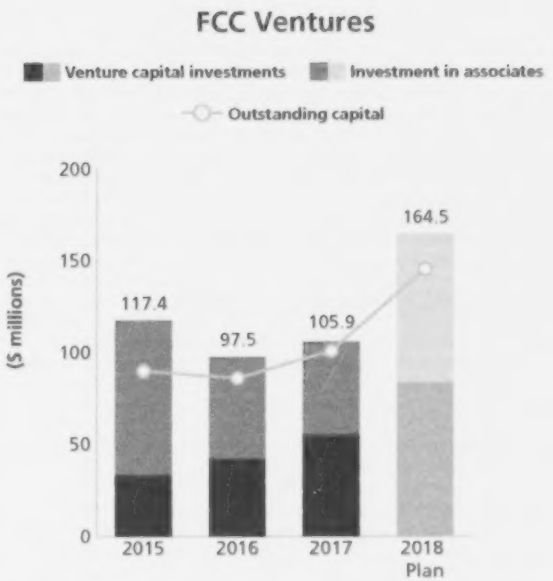
FCC Alliances loans receivable decreased by 5.9% from 2015-16 to $1,016 million in 2016-17 due to higher repayments during the year. In 2017-18, loans receivable for FCC Alliances is expected to increase to $1,281 million.



FCC Ventures is the corporation's venture capital business line, created to address the need for non-traditional financing in Canada's agriculture industry. The investment and subordinated debt lending objectives are focused on commercialization-to-growth or the recapitalization of mature businesses in the industrial bio-products, nutraceutical ingredients, food and agricultural technology sectors and are made to Canadian entities carrying on operations in the agri-food and agribusiness sectors primarily in Canada.

The venture capital portfolio includes five limited partnership funds, consisting of three equity funds and two subordinated debt funds, managed by Avrio Capital Inc. Avrio Equity Funds make up the investment in associates balance on the balance sheet. The Avrio Subordinated Debt Funds focus exclusively on subordinated lending. Investments through Avrio Subordinated Debt Funds are consolidated in the financial statements and reported as venture capital investments. All investments have been sold from Avrio Fund I and the fund will be closed early in the next fiscal year.

In 2016-17, FCC Ventures contributed $4.4 million in income, which is lower than the $15.8 million earned in 2015-16 and is primarily related to higher gains realized from divestitures and higher fair value gains in the prior year. Investment in associates decreased from $55.5 million in 2015-16 to $50.9 million in 2016-17 primarily due to divestures offsetting new investments. Venture capital investments increased from $42.0 million in 2015-16 to $55.0 million in 2016-17 due to new subordinated lending. It is expected that investment in associates will increase to $81.1 million in 2017-18 as a result of new investments and fair value increases. Venture capital investments are expected to increase to $83.4 million in 2017-18 due to additional subordinated lending. Further details of the investment carrying value amounts can be found in Note 9 and Note 10 of the Notes to the Consolidated Financial Statements.

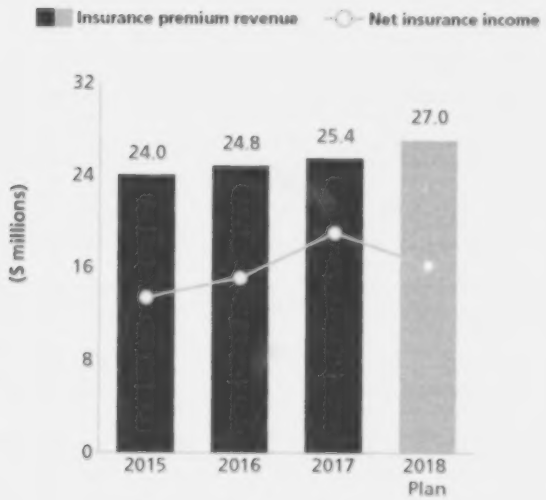


FCC Insurance offers creditor life and accident insurance to protect customers and their families, partners and businesses. Sun Life Assurance Company of Canada underwrites and administers FCC's insurance programs.

FCC loan insurance premium revenue has increased consistently over the last several years as a result of FCC's growing portfolio and emphasis on insurance coverage as part of a customer's complete loan package. FCC loan insurance premium revenue slightly increased to $25.4 million in 2016-17, compared to $24.8 million in 2015-16. Net insurance income varies from year to year depending on the claims incurred. In 2016-17, total incurred claims were $6.4 million, compared to $9.7 million in 2015-16. This resulted in net insurance income of $19.0 million in 2016-17, compared to $15.1 million in 2015-16.

In 2017-18, insurance premium revenue is expected to increase by 6.3% as a result of portfolio growth. Net insurance income is expected to decrease by 14.7% due to a higher claims expense compared to prior years.

Insurance income



FCC Learning provides Canadian producers and agribusiness operators with information and training to help advance their farm management practices. In 2016-17, 11,695 people attended 92 core FCC Learning events.

In 2017-18, FCC Learning will continue to offer a combination of e-learning and face-to-face events to meet the business management needs of the agriculture industry.

FCC Management Software is focused on developing, promoting and improving farm management software for the Canadian agriculture industry. In 2016-17, net sales revenue, including product support, decreased to $1.2 million. In 2017-18, net sales revenue is expected to increase to $1.9 million.

Financial position

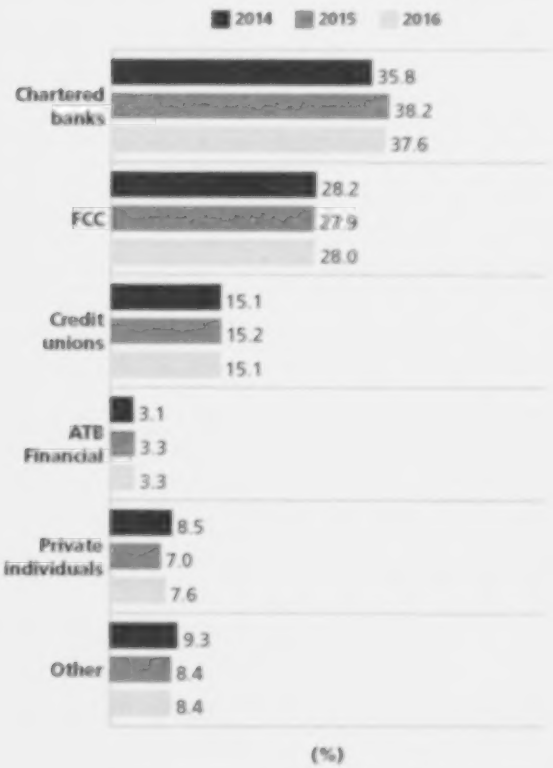
FCC continues to maintain a strong balance sheet and good risk management practices. The following section discusses FCC's financial position and provides an analysis of FCC's largest asset: loans receivable. This section also discusses FCC's credit quality, funding and liquidity, and capital management.

Loans receivable

Market share

According to Statistics Canada, farm debt outstanding increased by 7.3% to $96,002 million in 2016. FCC's market share increased from 27.9% to 28.0% in 2016. FCC's proportion of Canada's farm debt outstanding increased $1,982 million from 2015 to $26,898 million, which remains second to the chartered banks at $36,096 million.

Market share as at December 31*

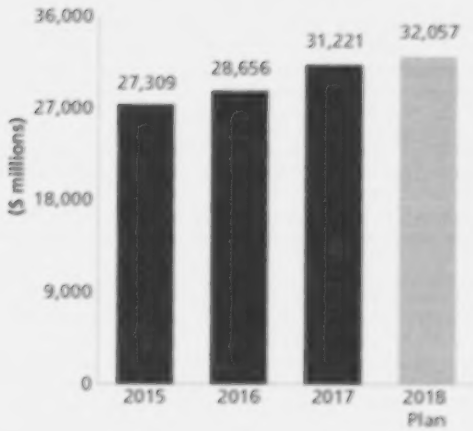


*Historical results are updated annually by Statistics Canada.

Total loans receivable

In 2016-17, loans receivable increased by $2,565 million or 9.0% from 2015-16, moving the portfolio from $28,656 million to $31,221 million. The growth in loans receivable was mainly due to higher disbursement levels compared to the previous year offset by higher loan repayments in the current year. In 2017-18, loans receivable is expected to increase at a slower pace as disbursements are expected to decrease.

Loans receivable

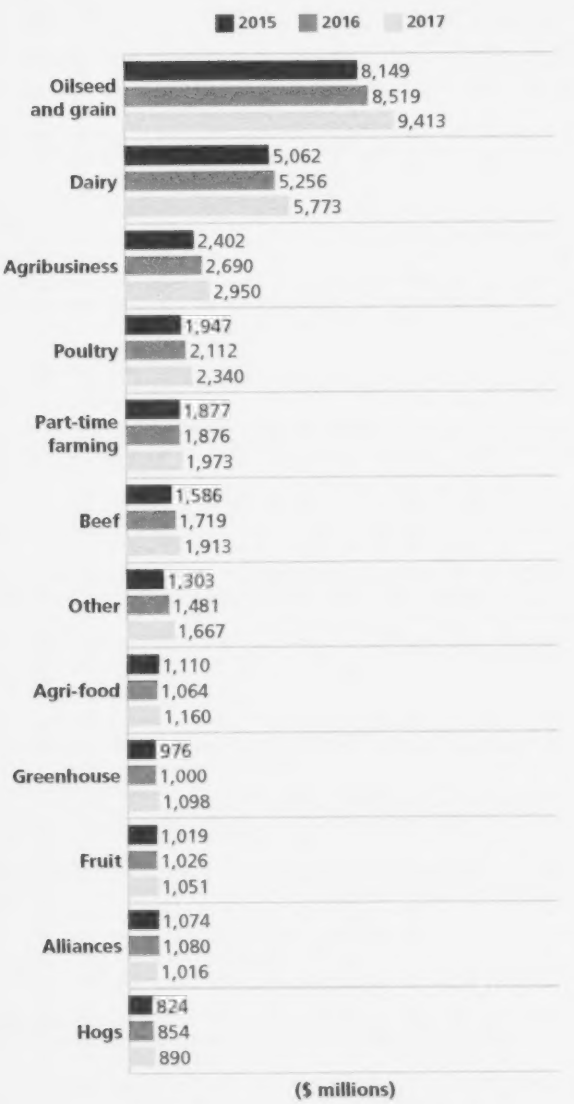


Loans receivable composition by sector

FCC experienced loans receivable growth in all sectors with the exception of alliances. The largest loans receivable year-over-year growth was in other and beef sectors, which increased 12.6% to $1,667 million and 11.3% to $1,913 million, respectively. Other is composed of maple syrup, sheep, mixed enterprises and many smaller enterprise types.

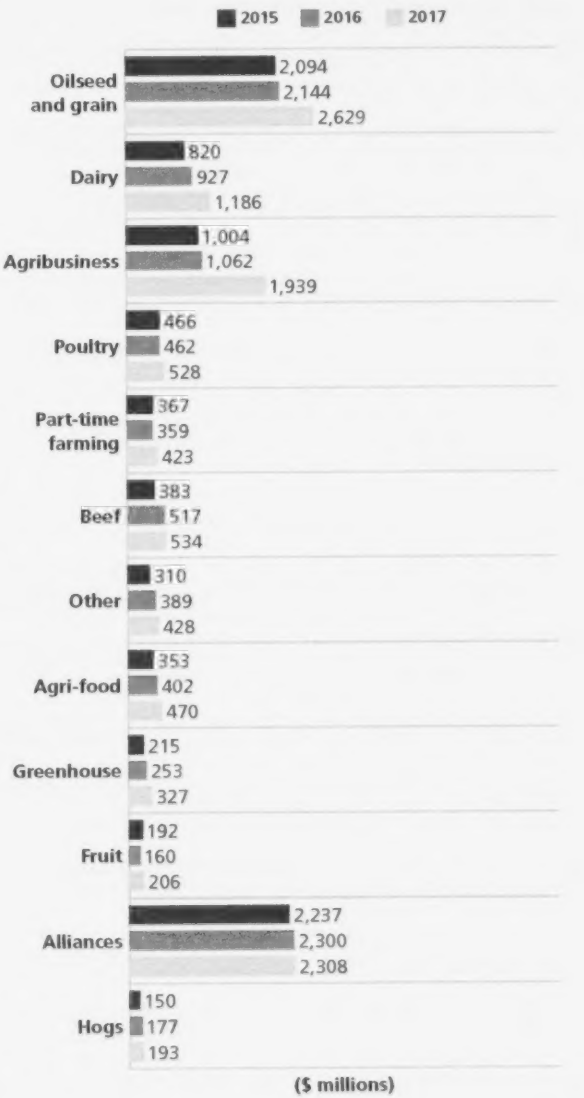
In 2016-17, disbursements increased in all sectors. The most significant increase in disbursements was 82.6% in agribusiness, which was partially related to increases in revolving financing. This was followed by significant increases in greenhouse, fruit, and dairy sectors, which increased 29.2%, 28.8% and 27.9%, respectively.

Loans receivable by sector*



*Excludes deferred loan fees.

Disbursements by sector



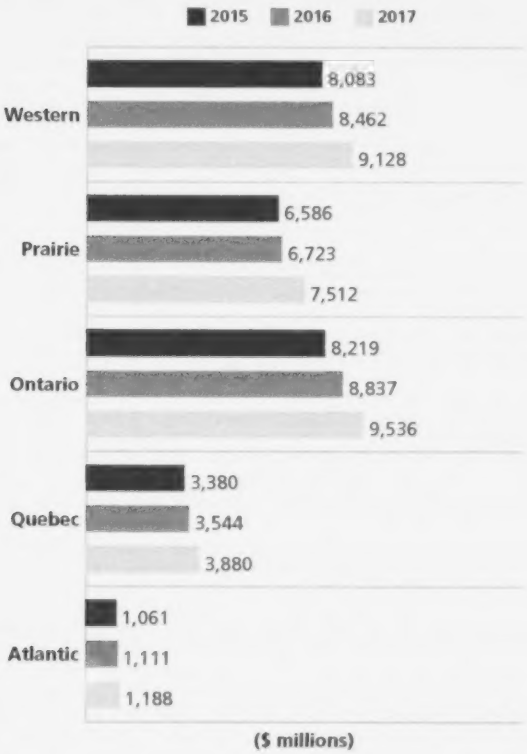
Loans receivable composition by region

By lending to all agriculture sectors across Canada, FCC spreads risk geographically while promoting agriculture as a strong and vibrant industry.

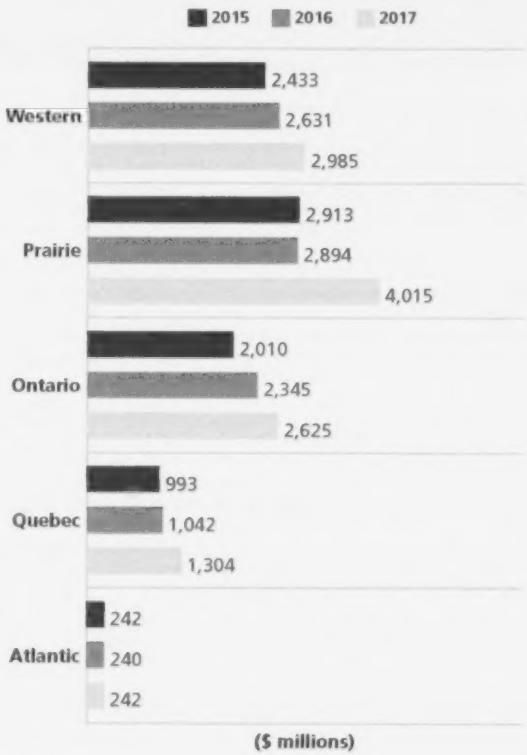
In 2016-17, FCC experienced loans receivable growth across Canada. The Prairie region had the largest growth in loans receivable in 2016-17, increasing by 11.7% to $7,512 million. The Quebec region had the second largest growth, which increased by 9.5% to $3,880 million.

In 2016-17, disbursements increased in all regions. The largest increase was in the Prairie region where disbursements increased by 38.7% mainly due to increases in revolving financing. The second largest increase was in the Quebec region, where disbursements increased by 25.1%.

Loans receivable by region*



Disbursements by region



*Excludes deferred loan fees.

Credit quality

FCC continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. FCC has developed customized programs and product options that provide flexibility and support customers both in times of challenge and opportunity.

FCC employs sound business practices for analyzing credit quality and monitoring loans that are past due and impaired. From this analysis, FCC can better assess the appropriate level of allowance for credit losses and determine whether its risks are within the acceptable tolerances.

Impaired loans

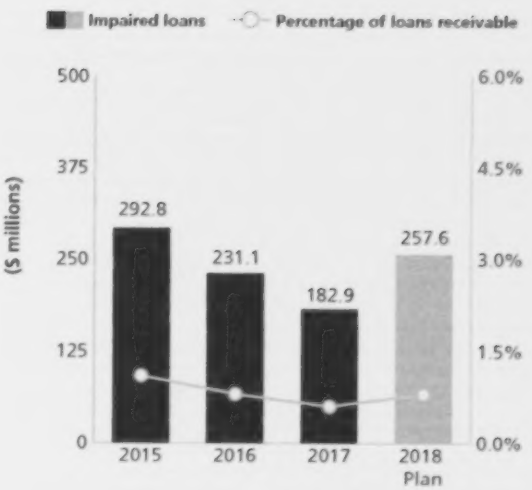
Impaired loans are loans that, in management's opinion, have no reasonable assurance of a timely collection of the full amount of principal and interest. Any loan where an amount greater than $500 is past due for 90 or more consecutive days is classified as impaired unless the loan is sufficiently secured.

In 2016-17, impaired loans decreased by $48.2 million to $182.9 million. As a percentage of loans receivable, it decreased to 0.6% in 2016-17. In 2017-18, impaired loans are projected to increase by $74.7 million to $257.6 million due in part to growth in loans receivable.

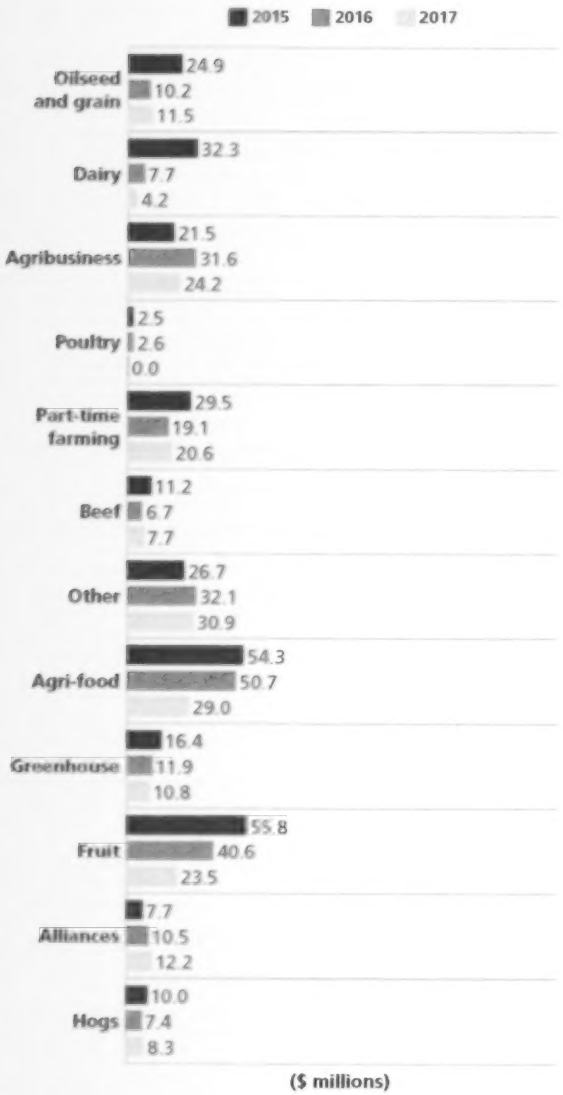
At a sector level, impaired loans for agri-food and fruit experienced the largest year-over-year decreases of $21.7 million and $17.1 million, respectively. Alliances and part-time farming sectors experienced the largest year-over-year increases of $1.7 million and $1.5 million, respectively.

Through its customer support programs, FCC proactively supports individual customers and sectors during financial difficulties. In 2016-17, FCC made payment schedule adjustments to 1,811 loans, 293 of which were part of its sector-specific support programs. Payment schedule adjustments as a percentage of total owing remained low at 2.8% in 2016-17 compared to 2.4% in 2015-16.

Impaired loans



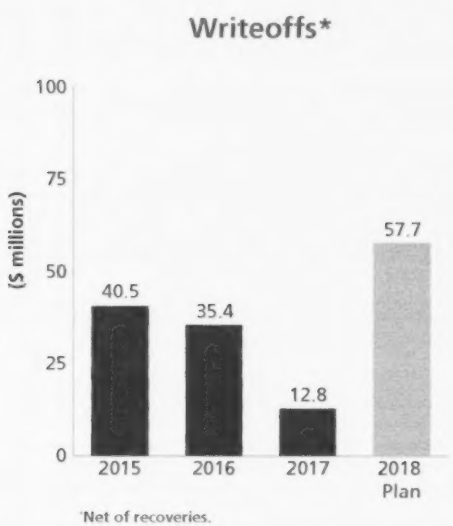
Impaired loans by sector



Writeoffs

Loan amounts deemed uncollectible by management are considered to be in default and may result in full or partial writeoffs depending on the value of security held against the loan.

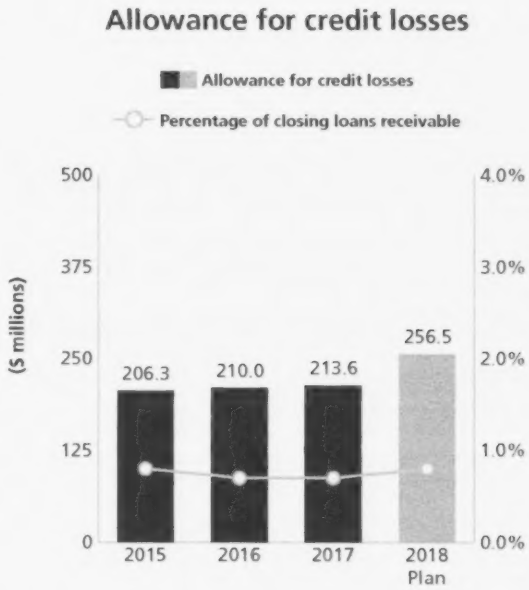
In 2016-17, the amount of writeoffs, net of recoveries, decreased to $12.8 million. Writeoffs as a percentage of loans receivable was lower than prior year at less than 0.1%. In 2017-18, writeoffs are projected to increase by $44.9 million to $57.7 million. Writeoffs as a percentage of loans receivable are expected to increase to 0.2%.



*Net of recoveries.

Allowance for credit losses

The allowance for credit losses is an estimate used to adjust loans receivable to reflect the estimated realizable value. Management looks at indicators such as loans that are past due and impaired and must rely on estimates and judgment when assessing the appropriate level of realizable value. These inputs, coupled with changes in the external operating environment, may cause the realized credit losses to be materially different from current assessments, requiring an increase or decrease in the allowance for credit losses.



In 2016-17, the allowance for credit losses slightly increased by $3.6 million to $213.6 million. The allowance for credit losses as a percentage of closing loans receivable remained at 0.7%. In 2017-18, the allowance is expected to increase to $256.5 million, while the percentage of loans receivable is expected to increase to 0.8%. For more information about the allowance calculation process and its components, refer to Note 2 and Note 8 of the Notes to the Consolidated Financial Statements.

Funding and liquidity

Funding activity

On April 21, 2008, FCC began borrowing directly from the federal government under the Crown Borrowing Program. FCC continues to carry capital market debt raised before this date.

During 2016-17, FCC raised short- and long-term funds through the following programs:

- Domestic Commercial Paper Program (for U.S. dollars only)
- Crown Borrowing Program

Short-term funding

Short-term funding consists of borrowings with a term to maturity of one year or less, which include fixed-rate borrowings and floating-rate notes. Floating-rate notes have floating interest rates that reset based on one-month T-bill rates. Funding is raised through the Crown Borrowing Program and the Domestic Commercial Paper Program. The outstanding short-term borrowings at March 31, 2017, were $10,416 million, compared to $12,352 million at March 31, 2016. Of the total short-term borrowings outstanding, $9,910 million were funds from the Crown Borrowing Program.

Long-term funding

Long-term funding consists of borrowings with a term to maturity of more than one year, which include fixed-rate borrowings and floating-rate notes. Floating-rate notes have floating interest rates that reset based on one-month or three-month T-bill rates. The outstanding long-term borrowings at March 31, 2017, were $16,508 million, an increase from $11,910 million the previous fiscal year. In 2016-17, all long-term borrowing was transacted through the Crown Borrowing Program.

Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. Moody's Investors Service and Standard & Poor's did not change FCC's debt ratings during 2016-17. FCC's debt ratings as of March 31, 2017, are detailed below.

	Long-term	Short-term
Moody's Investors Service	Aaa	P-1
Standard & Poor's	AAA	A-1+

Liquidity

Having adequate liquidity ensures FCC has access to cash to meet daily operational requirements in the event there is an unanticipated need for cash, or a business disruption prevents the corporation from borrowing debt through the Crown Borrowing Program. While the Crown Borrowing Program provides stable funding, in the event of a disruption FCC also maintains a bank operating line of credit and an investment portfolio of highly liquid securities sufficient to meet projected funding requirements for a minimum of 30 days. To ensure access to funds meets operational requirements, FCC forecasts future cash requirements and creates a borrowing plan.

See Note 26 of the Notes to the Consolidated Financial Statements for additional details.

Capital management

FCC manages capital in compliance with its Board-approved capital management policy. The capital management policy and supporting framework outline FCC's approach to assessing capital requirements for risks identified through its enterprise risk management framework. The objective of the capital management policy and framework is to maintain a safe and sound capital position to withstand economic downturn, periods of extended loss and to support FCC's strategic direction. This will allow FCC to continue to serve the industry through all economic cycles.

FCC compares its total capital to minimum regulatory capital and target capital when assessing current and future capital adequacy. FCC uses the Capital Adequacy Requirements guideline as issued by the Office of the Superintendent of Financial Institutions (OSFI) to assess its total capital, minimum regulatory capital and risk-weighted assets (RWA). FCC's internal capital adequacy assessment process (ICAAP) considers the results of its stress-testing and considers current and future strategic direction. FCC uses the ICAAP to determine an appropriate target capital ratio. FCC's approaches are generally consistent with Basel III guidance issued by the Basel Committee for Banking Supervision.

Capital adequacy

FCC is currently and is projected to remain adequately capitalized. FCC has established a target capital ratio of 15.0% of RWA, based on the ICAAP. The target is set to account for OSFI's minimum regulatory capital, capital required for additional risks and the impact of stress-testing, future growth, potential regulatory changes, peer benchmarking and an operating range. FCC is currently 1.3% above the target capital ratio and expects to be at a similar level at March 31, 2018.

Total capital ratio continuity

The 0.4% decrease in the total capital ratio from March 31, 2016, to March 31, 2017, is the net result of capital generation offset by increased RWA and dividend payments. The increased RWA results primarily from portfolio growth while capital generation is primarily driven by net income and the resulting increase to retained earnings. In 2016-17, FCC paid dividends of $268.3 million to the Government of Canada as a result of aligning dividend payments with its capital management policy.

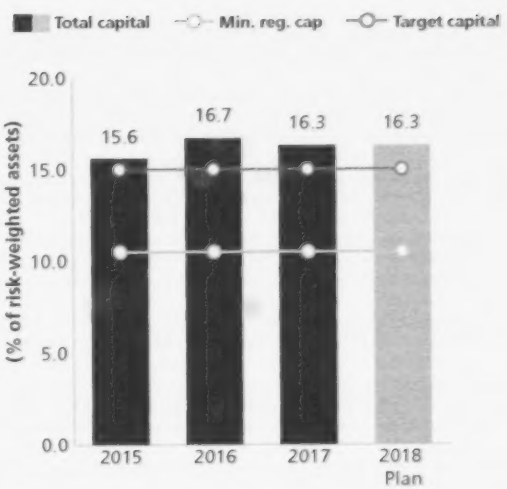
Debt to equity

FCC uses debt to equity as an additional measure to assess capital adequacy and the measure also represents the corporation's only legislated limit. At the end of 2016-17, FCC's debt-to-equity ratio remained below its legislated limit of 12:1.

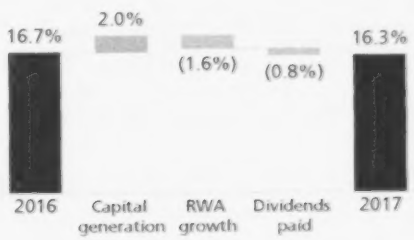
From 2015-16 to 2016-17, FCC's debt-to-equity ratio increased slightly from 4.7:1 to 4.8:1 due in part to the relationship between portfolio and equity growth. Portfolio growth was 9.0%, which exceeded equity growth, net of dividends of 7.2%. In 2017-18, this ratio is projected to remain at 4.8:1.

See Note 25 of the Notes to the Consolidated Financial Statements for additional details on capital management.

Capital adequacy



Total capital ratio continuity



Enterprise risk management

Managing risk to protect FCC and maintain great customer relationships

FCC has governance, systems and processes in place to maintain enterprise risk management practices consistent with federally regulated financial institutions.

As a financial institution, risk is inherent in virtually all of our activities and we take potential risks into account when lending to customers, delivering services, identifying our priorities and developing our business strategies and initiatives. We continually improve our enterprise risk management framework and we measure our activities against a formal risk appetite and tolerance statement that defines and measures acceptable risk.

Our risk management objectives and supporting priorities are focused on building a bright future for Canadian agriculture.

Risk governance

Under the oversight of the Board of Directors, FCC's enterprise risk management framework provides an overview of our enterprise-wide practices for managing risk, including identifying, assessing, mitigating/controlling, monitoring and reporting on significant risks facing the organization.

FCC Board of Directors

The FCC Board of Directors oversees the organization's enterprise risk management framework to ensure risk management is integrated with strategic, financial and operating plans. The Board-approved risk appetite framework establishes the risk limits for all categories of risk.

The Board has established four committees to help fulfil its oversight role.

The **Risk Committee** oversees enterprise risk management and ensures risk management activities are separate from operational management. The committee also oversees organizational compliance with FCC's risk management policies and the effectiveness of systems and programs related to capital requirements.

The **Audit Committee** oversees the integrity, accuracy and timeliness of FCC's financial reporting. The committee also oversees FCC's internal audit function to ensure compliance with laws, regulations and ethical conduct. This includes ensuring an ongoing working relationship between FCC and the Office of the Auditor General of Canada.

The **Corporate Governance Committee** reviews, reports and, when appropriate, recommends governance matters to the Board. This includes FCC's strategic planning process, code of conduct and ethics and corporate social responsibility strategy. The committee also has the mandate to provide recommendations regarding the appointment of directors and the Board Chair.

The **Human Resources Committee** oversees FCC's human resources plan and policies. The committee also oversees President and Chief Executive Officer (CEO) selection, goal-setting and performance review, the corporate compensation structure and pension plans, as well as succession planning for senior managers.

FCC management committees

A number of FCC committees guide corporate decision-making. These committees develop and monitor risk management processes and practices.

The **Enterprise Management Team** sets FCC's strategy and determines which business opportunities to pursue. The committee also ensures the enterprise risk management framework is implemented across FCC.

The **Asset Liability Committee** directs FCC's business and financial performance relative to the approved strategy and risk appetite statement. The committee is responsible for FCC's capital and asset-liability management strategies, volume, margin and loan pricing results, and annual targets for the corporate plan.

The **Enterprise Risk Management Committee** advises the Chief Risk Officer on risk management governance. It also promotes a risk management culture at FCC and the oversight of risk management practices. The committee reviews and makes recommendations about FCC's risk structure, resources, mandate and budget. It advises the Chief Risk Officer and Board about the risk appetite statement and tolerances, risk management frameworks and policies, compliance and risk reports, action plans to address policy breaches, the fit of new products and services within the risk appetite, stress/scenario testing and the assessment of strategic risk. The committee also reviews and approves FCC's risk management models.

The **Operational Risk Management Committee** champions operational risk management at FCC. The committee recommends changes to the operational risk management framework, challenges effectiveness of controls and manages operational risk treatment plans, escalating risks to the Enterprise Risk Management Committee as required.

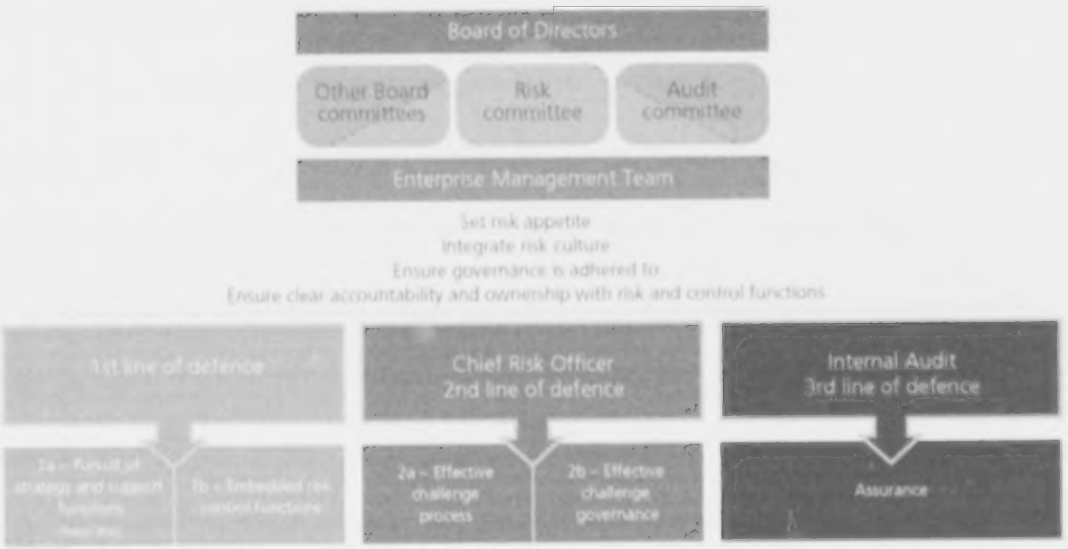
The **Credit Policy Committee** oversees the development of lending, leasing and custom product policies and ensures they reflect FCC's credit risk tolerance, risk culture and industry best practices, including applicable laws and regulations.

The **Credit Committee** approves large credit facilities and requests for pre-authorized credit. It ensures activities are within FCC's risk tolerances and in accordance with credit policies.

The **Venture Capital Committee** approves commitments of capital to third-party fund managers for venture capital investments.

FCC executive and business functions

FCC uses a three lines of defence model to govern risk related to key business processes. Policies outline risk-taking and risk-management functions and then cascade risk management authorities to various operational units congruent with the authorities of the President and CEO, Chief Risk Officer or Vice-President, Internal Audit. The authorities maintain three distinct and independent lines of defence.



The **first line of defence** develops and executes FCC's business strategy. This includes the ability to make loans, fund the portfolio, develop products and pursue markets and other risk-taking decisions. These decisions are made within the context of the risk appetite statement. Included in the first line are embedded control functions whose role is to monitor activities of the first line.

The **second line of defence** effectively challenges risk-taking decisions made by the first line relative to the risk appetite statement. This includes setting risk policy and standards, monitoring compliance to policy, reporting risks to management and the Board and challenging the risk-taking decisions.

The Chief Risk Officer maintains independence through a direct reporting relationship to the Board's Risk Committee and leads a risk division that is independent of FCC operations.

The **third line of defence** provides independent and objective assurance to the Board that FCC appropriately takes and manages risk within the risk appetite statement. This includes reviewing the first and second-line functions.

The Internal Audit business function provides objective assurance to the Board and FCC executive about the effective operation of risk management practices and internal controls.

FCC's risk appetite

FCC's risk capacity is informed by the Farm Credit Canada Act, Financial Administration Act and various directives provided by our shareholder, the Government of Canada.

The Board has established a risk appetite statement for FCC. Annually, the risk appetite is reaffirmed and approved by the Board through the risk appetite framework. The statement consists of three core principles that outline the level of risk FCC is willing to take, accept and avoid. A series of supporting statements provides additional information and context. The core principles for managing risk are as follows:

- We take risks we understand and that are good for customers, Canadian agriculture and FCC.
- We accept the risk of a long-term view in order to remain a steady presence for Canadian agriculture.
- We avoid risks that jeopardize FCC and our ability to strengthen and sustain Canadian agriculture.

In addition to the principles, the risk appetite contains a series of tolerances and limits categorized as strategic, financial and operating. Annually, these statements and limits are reviewed to ensure adequate coverage of the strategy, changes in the operating environment, and changes in guidelines for financial Crown corporations.

Management regularly reports on the risk profile to risk tolerances and limits, ensuring appropriate action is taken to address any issues outside of stated tolerance, preventing the profile from exceeding risk appetite.

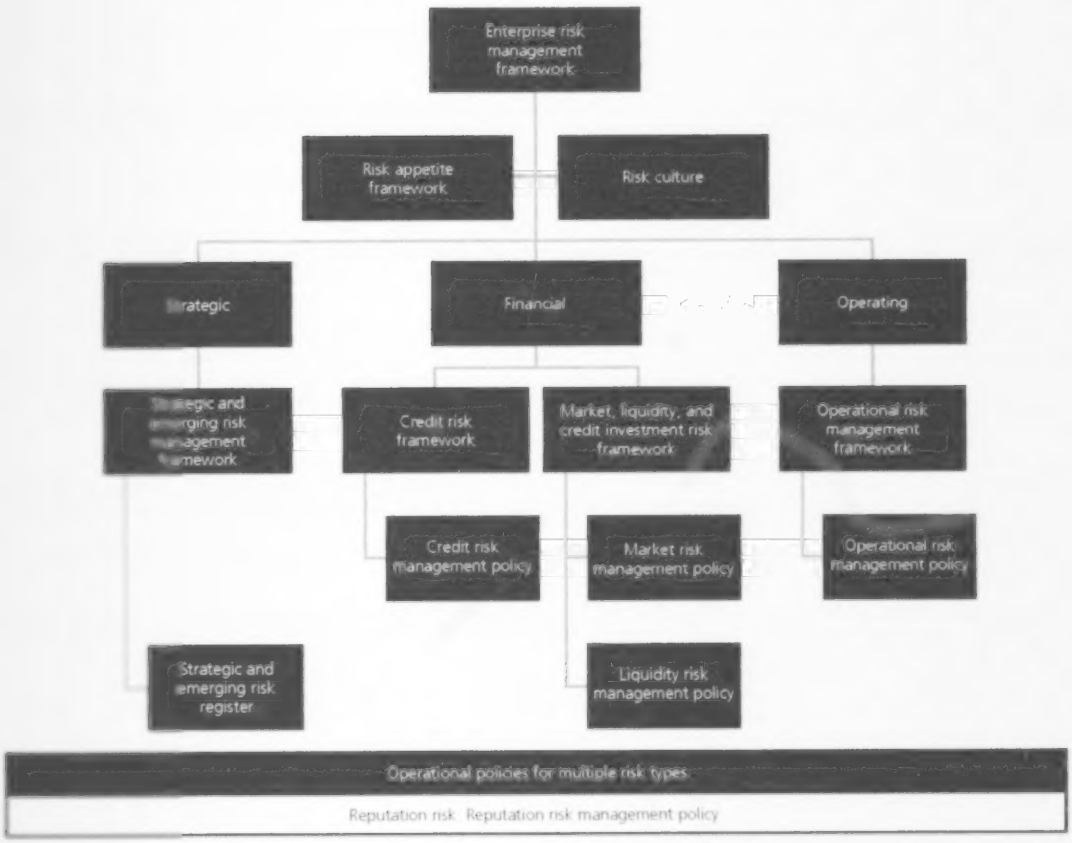
FCC's risk culture

FCC has developed a risk culture statement describing how employees in each line of defence are expected to behave in regard to the risk appetite. Each line of defence is 100% accountable to work collaboratively with others, advance the business of agriculture in Canada, and be a committed partner in every interaction; to listen for contributions and honour commitments; to achieve the best possible result for FCC and the customer.

FCC's risk categories

FCC categorizes risk as strategic, financial, operating or reputation. The financial classification is further delineated into three categories – credit, market and liquidity.

Enterprise risk management framework: This framework provides the governance structure for managing risk, the process to identify, assess, control/mitigate, monitor and report on risk and formalizes the risk appetite and supporting risk culture. The Board approves this framework.



Risk appetite framework: This framework sets the tone for risks the organization is willing to take and accept, and the risks it wishes to avoid and includes all limits and thresholds. The Board approves this framework.

Risk category frameworks: These frameworks elaborate on the specific processes used to identify, assess, control/mitigate, monitor and report on the risk category. These frameworks are subordinate to the enterprise risk management framework and are approved by management.

Strategic and emerging risk register: This register ranks the top risks facing the organization in the categories of strategic, financial and operating risk. The Board approves the register and related prioritization of risks.

Enterprise risk category policies: By risk category, these policies articulate the minimum requirements by which employees and business units must operate. These policies are approved by the Board.

Operational policies for multiple risk types: These policies are established to communicate requirements specific to business operations and processes.

Authorities and limits: Applicable authorities and limits are established within each policy and approved by the Board.

Reporting: Quarterly reports against the risk appetite framework are provided to the Enterprise Management Team, Enterprise Risk Management Committee and Board Risk Committee for discussion. The report contains a comprehensive view of the organization's risk profile relative to the risk appetite as well as an analysis on emerging risks and key risk indicators.

Strategic risk

Strategic risk refers to the external environment and FCC's ability to develop and implement effective business strategies.

The Enterprise Management Team develops the corporate strategy annually and documents FCC's key strategic priorities in the five-year corporate plan. The Board provides oversight. The external environment, including the global economy, the Canadian financial marketplace and the agriculture industry, is monitored to discern if strategic changes are required to address emerging risks.

FCC has developed strategic risk tolerance statements. Annually, limits are set to correspond to the tolerance statements.

Role of FCC: We engage in activities aligned with the Farm Credit Canada Act and other legislative requirements, federal government policy and operational directives. Our primary focus is on small and medium-sized participants in the industry.

Market share: We assess the market for growth, recognizing industry and economic cycles. We maintain a market share that encourages a healthy level of competition. We are a fair competitor.

Industry trust: We execute FCC's mandate and apply practices consistent with Canadian financial institution requirements for risk management.

Customer relationships: We focus on great customer relationships and provide an excellent customer experience, balancing customer interests, the responsible management of FCC and what is best for the industry.

Execution excellence: We invest in effective delivery of services and balance operational efficiency with managing risk.

Culture: We have engaged employees, enabled by our culture of 100% accountability and partnership, managing relationships with customers and demonstrating shared accountability for sound risk and financial practices.

Stakeholder value: We are a catalyst for the agriculture and financial services industries, working together to make Canadian agriculture stronger.

Emerging and strategic risks are identified and analyzed through external scanning, consultation with internal subject matter experts and other means. The Board discusses the top enterprise risks during its involvement in the strategic planning cycle. Enterprise Management Team members are accountable for developing risk mitigation plans and reporting progress to the Board on a quarterly basis.

In addition, management develops severe but plausible scenarios to test our ability to stay within our risk appetite during a stress event. Potential risks are assessed both inherently and residually, which determines the level of risk treatment required.

Board-approved treatment plans and playbooks are monitored and reported to the Board on a quarterly basis.

Financial risks – credit, market and liquidity

Financial risks include FCC's risk categories of credit, market and liquidity risk. FCC has developed risk tolerance statements applicable to all financial risk categories. Annually, limits are set to correspond to the risk tolerance statements, maintained in policy and reported quarterly to the Board. The limits are holistic and include capital, income, loan loss, portfolio distribution and large customer connection exposure. The financial risk tolerance statements are:

Total capital ratio: We maintain a safe and sound capital position to withstand economic downturn and periods of extended loss.

Financial strength: We target a net income that funds growth, meets return expectations and allows FCC to remain self-sustaining.

Loan loss: We manage our loan portfolio to minimize large writeoffs through policy compliance, enforceable security and accurate documentation.

Portfolio concentration: We diversify our portfolio across all sectors of agriculture, agribusiness and agri-food, and Canada. We manage concentration through the use of limits.

Connection exposure: We do not expose FCC to a customer connection exposure that could result in major loss.

Details on how FCC manages financial risk are described in Note 26 of the Notes to the Consolidated Financial Statements.

Financial risks – credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to FCC. Credit risk on loan/lease receivables is the most significant risk that the corporation faces, but credit risk also exists in investments and derivative financial instruments.

The Board is responsible for approving the corporation's credit risk tolerance and relies on a number of committees, divisions and business units to effectively manage credit risk.

Credit risk assessment starts with individual transactions. FCC lending and credit risk employees assess and manage credit risk by ensuring individual loans are consistent with defined policies. Certified appraisers in the Valuations and Environmental Risk business unit help ensure the accuracy of security value estimates.

FCC uses policies, processes, systems and strategies to manage the credit risk of the lending portfolio. Venture capital and subordinated debt are provided through Avrio Capital, a private entity that manages a series of investments on behalf of FCC and other investment partners. FCC is exposed to credit risk through subordinated debt fund investments.

The Risk Management division assesses credit risk at the aggregate level, providing risk policies, assessment tools and models that quantify portfolio credit risk and allowance for credit losses. FCC also closely monitors the agriculture and agri-food operating environments to ensure the corporation's lending policies, activities and prices are appropriate and relevant. FCC focuses risk-taking decisions primarily on the customers' ability to repay the loan. Secondary forms of repayment such as collateral security are considered in the lending decision. The loan portfolio is monitored regularly using a combination of measures to estimate repayment and collateral quality.

Financial risks – market risk

Market risk is the potential for loss due to adverse changes in underlying market factors such as interest rates and foreign exchange rates. Market risk exists in all of the corporation's financial instruments. The market risk policies and limits ensure exposures to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. FCC's market risk policies comply with the Minister of Finance Financial Risk Management Guidelines for Crown Corporations (August 2009).

Interest rate risk is the risk that a change in the interest rate adversely affects FCC's net interest income and fair value measurements. Exposure to interest rate risk is monitored primarily through an asset/liability model where various scenarios are produced at least monthly to analyze the sensitivity of net interest income and fair values to a change in interest rates and balance sheet assumptions. Foreign exchange risk is the risk that currency fluctuation negatively affects FCC. The currency exposure is minimized by matching foreign currency loans against foreign currency funding.

Financial risks – liquidity risk

Liquidity risk is the risk that FCC has insufficient funds to meet payment obligations as they come due. Liquidity risk is minimized through the use of a liquid investment portfolio, funding through the Crown Borrowing Program and access to an operating line of credit.

Operational risk

Operational risk relates to the potential of direct or indirect loss due to inadequate or failed internal processes, resources, systems or external events, and the failure to comply with, or adapt to, legislative or regulatory requirements or litigation.

FCC categorizes operational risks into a risk taxonomy under the headings of people, process and systems. Each category has risk appetite statements developed to guide management in the setting of controls.

People: We maintain a skilled and knowledgeable work force to meet current and future business requirements. We adhere to the highest standards of integrity and will not allow goals or pressure to compromise our decisions. We deter theft and fraud. We comply with applicable legislation, regulation and regulatory directives.

Process: We execute transactions and capture information consistent with policy, process and controls. We match suitable products, services and terms to customer situations and capabilities.

We validate decision-making models based on risk, complexity and materiality.

We apply an integrated approach and address change needs to deliver successful outcomes, transition and adoption of initiatives.

We ensure sufficient controls exist to protect FCC in all contractual relationships and procure goods and services with defensible and supportable methods.

Systems: We proactively prepare for business disruption to protect employees, customers and partners, to continue availability of critical operations and to limit losses.

We control and safeguard the confidentiality, integrity and availability of information assets. We maintain data quality to understand, replicate and audit key decisions.

We manage a technology infrastructure that is available, supportable and adaptable.

At FCC, business unit management is responsible for ensuring that appropriate controls, including policies and processes, are in place within their business units to manage risks and are operating effectively.

FCC processes are organized in a hierarchical process classification framework. This classification provides an end-to-end view to define work processes consistently and comprehensively without redundancies, and to identify risks inherent in the process.

Risk and control self-assessments identify and assess key risks to ensure appropriate controls are in place or gaps are closed. Initial assessments are facilitated by the Risk Management team to provide consistency of risk evaluation and categorization across the organization, after which managers are expected to self-assess and report monitoring results. Risk Management provides effective challenge by issuing recommendations to optimize controls.

In addition, the Internal Audit function executes the Audit Committee's approved Audit plan. The plan reviews processes and controls to provide assurance to the Board that risk is managed as intended. Audit deficiencies are to be addressed by management in a timely manner and reporting is provided to the Board on management's progress.

The Board receives regular reports on the operations of FCC in the form of:

- enterprise reports that provide an overview of FCC's business activities
- quarterly financial reports that provide quarterly financial statements and analysis
- quarterly risk reports that provide an overview of the risk profile of the organization, including any breaches of defined risk appetite limits and thresholds
- reporting on internal audit findings and effectiveness of controls – in addition, Internal Audit evaluates the performance of risk management annually and provides a report to the Board
- an annual report by the Integrity Officer on code of conduct violations and on litigation affecting FCC

Reputation risk

Reputation risk is the risk that key stakeholders and others may develop negative perceptions about FCC that could adversely affect the corporation's reputation and ability to attract and retain customers, business partners and employees.

As a federal Crown corporation, FCC is accountable to all Canadians. Exposure to reputation risk is a function of FCC's ability to manage and respond to other risks. To avoid real or perceived reputation damage, FCC has a robust governance structure, including policies and processes, to guide employee conduct in interactions with co-workers, customers, industry partners, suppliers, media and the general public.

Any risk event that exceeds FCC's risk appetite is assessed for reputation implications in accordance with the Reputation policy.

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Farm Credit Canada (FCC) and all information in this annual report are the responsibility of FCC's management and have been reviewed and approved by the FCC Board of Directors. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, consequently, include amounts that are based on the best estimates and judgment of management. Financial information presented elsewhere in the annual report is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that FCC properly authorizes and records transactions, safeguards assets, recognizes liabilities, maintains proper records, and complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of FCC's operations.

The FCC Board of Directors is responsible for ensuring that management fulfil its responsibilities for financial reporting and internal control. It exercises this responsibility through the Audit Committee, which is composed of directors who are not employees of FCC. The Audit Committee meets with management, internal auditors and external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

FCC's independent external auditor, the Auditor General of Canada, is responsible for auditing FCC's transactions and consolidated financial statements and for issuing his report thereon.

Michael Hoffort, P.Ag., ICD.D
President and Chief Executive Officer

Rick Hoffman, CPA, CMA, MBA
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 31, 2017

Office of the Auditor General of Canada

Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Farm Credit Canada, which comprise the consolidated balance sheet as at 31 March 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Farm Credit Canada as at 31 March 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Farm Credit Canada that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act*, the by-laws of Farm Credit Canada, and the directives issued pursuant to section 89 of the *Financial Administration Act* described in Note 1 to the consolidated financial statements.

H McManaman

Heather McManaman, CPA, CA
Principal
for the Auditor General of Canada

31 May 2017
Ottawa, Canada

Consolidated Balance Sheet

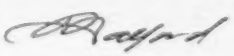
As at March 31 (thousands of Canadian dollars)	2017	2016
Assets		
Cash and cash equivalents	$ 790,595	$ 831,387
Temporary investments (Note 3)	435,530	337,049
Accounts receivable and prepaid expenses (Note 4)	399,110	24,820
Derivative financial assets (Note 5)	35,831	47,510
	1,661,066	1,240,766
Loans receivable – net (Notes 6 and 8)	31,007,050	28,445,647
Finance leases receivable – net (Notes 7 and 8)	16,468	14,736
Investment in associates (Note 9)	50,908	55,489
Venture capital investments (Note 10)	55,015	41,977
Post-employment benefit assets (Note 11)	53,536	-
	31,182,977	28,557,849
Equipment and leasehold improvements (Note 12)	24,234	22,254
Computer software (Note 13)	32,966	33,307
Equipment under operating leases (Note 14)	90,850	75,384
Other assets (Note 15)	22,179	21,345
	170,229	152,290
Total assets	$ 33,014,272	$ 29,950,905
Liabilities		
Accounts payable and accrued liabilities	$ 60,393	$ 63,813
Derivative financial liabilities (Note 5)	3	422
	60,396	64,235
Borrowings (Note 16)		
Short-term debt	10,416,139	12,352,406
Long-term debt	16,508,032	11,910,379
	26,924,171	24,262,785
Transition loan liabilities	130,024	105,222
Post-employment benefit liabilities (Note 11)	138,709	146,299
Other liabilities (Note 17)	19,658	18,293
	288,391	269,814
Total liabilities	27,272,958	24,596,834
Equity		
Contributed surplus	547,725	547,725
Retained earnings	5,106,783	4,698,824
Accumulated other comprehensive income	86,271	107,121
Equity attributable to shareholder of parent entity	5,740,779	5,353,670
Non-controlling interest	535	401
	5,741,314	5,354,071
Total liabilities and equity	$ 33,014,272	$ 29,950,905

Commitments, guarantees and contingent liabilities (Note 23)

The accompanying notes are an integral part of the consolidated financial statements.

The consolidated financial statements were approved by the FCC Board of Directors on May 31, 2017, and were signed on its behalf by:

Michael Hoffort, P.Ag., ICD.D
President and Chief Executive Officer



Jane Halford, FCPA, FCA, ICD.D
Chair, Audit Committee

Consolidated Statement of Income

For the year ended March 31 (thousands of Canadian dollars)	2017	2016
Interest income	$ 1,179,128	$ 1,161,484
Interest expense	182,408	174,957
Net interest income (Note 18)	996,720	986,527
Provision for credit losses (Note 8)	(19,289)	(42,582)
Net interest income after provision for credit losses	977,431	943,945
Net insurance income	19,030	15,111
Net income from investment in associates	1,491	13,614
Other income	(930)	33
Net interest income and non-interest income	997,022	972,703
Administration expenses (Note 19)		
Salaries and benefits	230,203	225,962
Other	140,944	126,465
Total administration expenses	371,147	352,427
Net income before fair value adjustment	625,875	620,276
Fair value adjustment (Note 20)	(12,080)	(4,781)
Net income	$ 613,795	$ 615,495
Net income attributable to:		
Shareholder of parent entity	$ 613,767	$ 615,477
Non-controlling interest	28	18

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statement of Comprehensive Income

For the year ended March 31 (thousands of Canadian dollars)	2017	2016
Net income	**$ 613,795**	$ 615,495
Other comprehensive income		
Items that are or may be reclassified to net income		
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	**(21,721)**	(23,322)
Net unrealized gains (losses) on available-for-sale financial assets	**871**	(501)
	(20,850)	(23,823)
Item that will never be reclassified to net income		
Remeasurements of post-employment benefit assets and liabilities (Note 11)	**62,492**	(2,129)
Total other comprehensive income (loss)	**41,642**	(25,952)
Total comprehensive income	**$ 655,437**	$ 589,543
Total comprehensive income attributable to:		
Shareholder of parent entity	**$ 655,409**	$ 589,525
Non-controlling interest	**28**	18

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

(thousands of Canadian dollars)	Balance March 31, 2016	Net income	Other comprehensive income	Dividend paid	Contributions from non-controlling interest	Balance March 31, 2017
Contributed surplus	**$ 547,725**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 547,725**
Retained earnings	**4,698,824**	**613,767**	**62,492**	**(268,300)**	**–**	**5,106,783**
Net gains (losses) on derivatives previously designated as cash flow hedges	**108,179**	**–**	**(21,721)**	**–**	**–**	**86,458**
Net unrealized (losses) gains on available-for-sale financial assets	**(1,058)**	**–**	**871**	**–**	**–**	**(187)**
Total accumulated other comprehensive income (loss)	**107,121**	**–**	**(20,850)**	**–**	**–**	**86,271**
Total equity attributable to parent	**5,353,670**	**613,767**	**41,642**	**(268,300)**	**–**	**5,740,779**
Non-controlling interest	**401**	**28**	**–**	**–**	**106**	**535**
Total	**$ 5,354,071**	**$ 613,795**	**$ 41,642**	**$ (268,300)**	**$ 106**	**$ 5,741,314**

(thousands of Canadian dollars)	Balance March 31, 2015	Net income Restated Note 3	Other comprehensive income	Dividend paid	Contributions from non-controlling interest	Balance March 31, 2016
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ –	$ 547,725
Retained earnings	4,175,856	615,477	(2,129)	(90,380)	–	4,698,824
Net gains (losses) on derivatives previously designated as cash flow hedges	131,501	–	(23,322)	–	–	108,179
Net unrealized losses on available-for-sale financial assets	(557)	–	(501)	–	–	(1,058)
Total accumulated other comprehensive income (loss)	130,944	–	(23,823)	–	–	107,121
Total equity attributable to parent	4,854,525	615,477	(25,952)	(90,380)	–	5,353,670
Non-controlling interest	315	18	–	–	68	401
Total	$ 4,854,840	$ 615,495	$ (25,952)	$ (90,380)	$ 68	$ 5,354,071

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31 (thousands of Canadian dollars)	2017	2016
Operating activities		
Net income	$ 613,795	$ 615,495
Adjustments to determine net cash (used in) provided by operating activities:		
Net interest income	(996,720)	(986,527)
Unwind adjustment on impaired loans	(3,403)	(2,630)
Provision for credit losses	19,289	42,582
Fair value adjustment	12,080	4,781
Net income from investment in associates	(1,491)	(13,614)
Amortization and depreciation	19,177	18,805
Other	(8,245)	1,683
Net cash outflow from loans receivable	(2,549,543)	(1,372,931)
Net cash (outflow) inflow from finance leases receivable	(1,295)	1,232
Net change in other operating assets and liabilities	18,936	(215)
Interest received	1,137,378	1,135,093
Interest paid	(160,519)	(160,165)
Cash used in operating activities	(1,900,561)	(716,411)
Investing activities		
Net cash outflow from temporary investments	(97,564)	(337,296)
Acquisition of venture capital investments	(23,163)	(10,545)
Proceeds on disposal and repayment of venture capital investments	10,000	2,032
Net cash inflow from investment in associates	6,076	42,328
Purchase of equipment and leasehold improvements	(9,440)	(13,982)
Purchase of computer software	(11,399)	(17,942)
Purchase of equipment under operating leases	(50,043)	(32,791)
Proceeds on disposal of equipment under operating leases	16,402	12,108
Cash used in investing activities	(159,131)	(356,088)
Financing activities		
Long-term debt issued	11,039,000	10,788,000
Long-term debt repaid	(9,166,601)	(9,990,621)
Short-term debt issued	16,160,430	20,324,075
Short-term debt repaid	(15,745,739)	(20,290,949)
Dividend paid	(268,300)	(90,380)
Cash provided by financing activities	2,018,790	740,125
Change in cash and cash equivalents	(40,902)	(332,374)
Cash and cash equivalents, beginning of year	831,387	1,164,315
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	110	(554)
Cash and cash equivalents, end of year	$ 790,595	$ 831,387
Cash and cash equivalents consists of:		
Cash	$ 350,290	$ 138,165
Short-term investments	440,305	693,222

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (FCC) was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. FCC is located in Canada and its registered office is at 1800 Hamilton Street, Regina, Saskatchewan, Canada. FCC is wholly owned by the Government of Canada and is not subject to the requirements of the Income Tax Act.

The purpose of FCC is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small- and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of FCC shall be on farming operations, including family farms.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law and replaced the Farm Credit Act and the Farm Syndicates Credit Act, both of which were repealed. The revised Act allows FCC to operate under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the Farm Credit Canada Act received royal assent, which updated the Farm Credit Corporation Act. This Act allows FCC to offer producers and agribusiness operators a broader range of services.

In September 2008, FCC, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act, requiring due consideration by FCC to the personal integrity of those it lends to or provides benefits to. During fiscal 2017, FCC continued to comply with the requirements of Section 89(6) of the Financial Administration Act.

In July 2015, FCC was issued a directive (P.C. 2015-1104) pursuant to Section 89 of the Financial Administration Act to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in FCC's next corporate plan. FCC's policies, guidelines and practices have been aligned with Treasury Board policies, directives and related instruments since March 31, 2016.

In March 2017, FCC was issued a directive (P.C. 2017-242) pursuant to Section 89 of the Financial Administration Act which repealed directive P.C. 2014-1377 of December 2014 and directs FCC to ensure its pension plans reflect the following:

(1) for its defined contribution pension plan, member contribution rates are equal to those of the employer by December 31, 2017

(2) the normal age of retirement is 65 years for employees hired on or after March 10, 2017, and the age at which retirement benefits are available, other than those received at the normal age of retirement, corresponds with the age at which they are available under the Public Service Pension Plan.

This directive also requires FCC to outline its implementation strategy with respect to the aforementioned requirements in its next corporate plan and subsequent corporate plans until the commitments are fully implemented. FCC is fully aligned with the directive at March 31, 2017.

2. Significant accounting policies

Basis of presentation

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The significant accounting policies used in the preparation of the consolidated financial statements are summarized below and in the following pages. The significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements.

The consolidated financial statements are presented in Canadian dollars, which is FCC's functional currency. Unless otherwise stated, all dollar amounts presented within the Notes to the Consolidated Financial Statements are in thousands of Canadian dollars.

Changes in accounting standards

The International Accounting Standards Board (IASB) has issued a number of interpretations, amendments and improvements that were mandatory for the accounting periods beginning on or after January 1, 2016. None of these had an impact on FCC.

Basis of consolidation

The consolidated financial statements include the accounts of FCC, Avrio Subordinated Debt Fund I and Avrio Subordinated Debt Fund II (collectively the Avrio Subordinated Debt Funds). The Avrio Subordinated Debt Funds are venture capital limited partnerships for which FCC is a limited partner holding majority partnership interests. FCC consolidates the Avrio Subordinated Debt Funds as it has control over these funds. FCC controls these funds as it is exposed, or has rights, to variable returns from its involvement with these funds and FCC has the ability to affect those returns through its power over the funds. An adjustment has been made for significant intervening transactions and changes in fair value of investments occurring between the December 31 year-end of the Avrio Subordinated Debt Funds and FCC's year-end. All significant intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in the Avrio Subordinated Debt Funds that is not attributable to FCC, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

Classification and designation of financial instruments

Financial assets are classified or designated as loans and receivables, financial assets at fair value through profit or loss (FVTPL) or available-for-sale (AFS) financial assets. Financial liabilities are classified or designated as financial liabilities at FVTPL or other financial liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial instruments at FVTPL are derivative financial assets and liabilities that are classified as held for trading (HFT) and non-derivative financial assets and liabilities that meet certain conditions to be designated at FVTPL at initial recognition. AFS financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other financial asset categories.

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification.

Cash and cash equivalents

Cash and cash equivalents are composed of bank account balances and short-term, highly liquid investments that have a maturity date of 90 days or less from the date of acquisition, are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are designated as AFS financial assets. Interest earned on cash and cash equivalents is included in interest income.

2. Significant accounting policies (continued)

Temporary investments

Temporary investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes and are designated as AFS financial assets. Temporary investments are accounted for at fair value using trade date accounting and a valuation technique as described under the Estimation Uncertainty heading. Unrealized fair value gains and losses are included in other comprehensive income (OCI). Interest earned on temporary investments is included in interest income.

Accounts receivable

Accounts receivable are classified as loans and receivables and are carried at amortized cost using the effective interest method.

Derivatives

Derivative financial instruments create rights and obligations that are intended to mitigate one or more of the financial risks inherent in an underlying primary financial instrument. FCC uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, within limits approved by the FCC Board of Directors (the Board). These limits are based on guidelines established by the Department of Finance. FCC does not use derivative financial instruments for speculative purposes.

Derivatives are classified as HFT and are recorded at FVTPL using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Derivatives classified as HFT are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Interest earned and incurred on derivatives classified as HFT is included in interest income.

Cash flow hedges

Cash flow hedge accounting was discontinued prospectively on January 1, 2015, for all the interest rate swaps previously designated as hedging items as FCC revoked the designated hedging relationships. The cumulative gains previously recognized in OCI are being transferred to net interest income over the remaining term of the original hedge. All fair value gains and losses on the interest rate swaps subsequent to discontinuation are recognized immediately in the fair value adjustment.

Loans receivable

Loans are classified as loans and receivables. Loans receivable are stated net of an allowance for credit losses and deferred loan fees and are measured at amortized cost using the effective interest method.

Loan interest income is recorded on an accrual basis and recognized in net income using the effective interest method unless the loan is classified as impaired. Once a loan is impaired, the unwinding of the discount on the security value is recognized as interest income based on the original effective interest rate of the loan.

Loan origination fees, including commitment fees and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest method. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees.

An impaired loan is any loan where, in management's opinion, the credit quality has deteriorated to the extent that FCC no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, any loan where an amount greater than $500 is past due for 90 or more consecutive days is classified as impaired unless the loan is sufficiently secured. When a loan is classified as impaired, the carrying value is reduced to its estimated realizable value through an adjustment to the individual allowance for credit losses. Changes in the estimated realizable amount that arise subsequent to the initial impairment are also adjusted through the individual allowance for credit losses.

2. Significant accounting policies (continued)

Loan interest income is not accrued when a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the impaired loan is restored to performing status, the remaining individual allowance for credit losses is reversed.

Loans and their related allowance for credit losses are written off when all collection efforts have been exhausted and there is no realistic prospect of future recovery.

Finance leases receivable

When FCC is the lessor in a lease arrangement that transfers substantially all of the risks and rewards incidental to ownership to the lessee, then the arrangement is classified as a finance lease. Finance leases receivable are classified as loans and receivables. Finance leases receivable are stated net of an allowance for credit losses and are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Finance lease income is recognized in a manner that produces a constant rate of return on the lease.

Allowance for credit losses

FCC recognizes an allowance for credit losses that represents management's best estimate of the incurred losses in the loan and lease portfolio at the balance sheet date. The allowance is increased or decreased by the provision for credit losses, the government subsidy for the Hog Industry Loan Loss Reserve Program (HILLRP), as described under the Government Assistance heading, the unwind adjustment, as described under the Individual Allowance heading, writeoffs and recoveries.

At each balance sheet date, FCC assesses whether there is objective evidence that a loan or lease is impaired. If there is objective evidence that an impairment loss on a loan or lease has been incurred, the carrying value of the loan or lease is reduced through the allowance for credit losses and the amount of the loss is recognized in the provision for credit losses. If, in a subsequent period, the amount of impairment loss increases or decreases, and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted through the allowance for credit losses and provision for credit losses.

In determining the allowance for credit losses, management segregates credit losses into two components: individual and collective.

Individual allowance – FCC first assesses whether objective evidence of impairment exists based on an individual review of each loan or lease in the portfolio. The review is undertaken to determine if a loss event indicating impairment exists for an individual loan or lease. The review assesses whether credit quality has deteriorated to the extent that FCC no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, FCC has defined loans or leases where an amount greater than $500 is past due for 90 or more consecutive days as being a loss event. If a loss event has occurred, an impairment loss is recorded unless the loan or lease is sufficiently secured.

The impairment loss is calculated as the difference between the loan or lease's carrying value and the present value of estimated future cash flows discounted at either the loan or lease's original effective interest rate for fixed-rate loans or leases or the effective interest rate at the time of the impairment for variable-rate loans or leases. The estimation of future cash flows considers the fair value of any underlying security as well as the estimated time and costs to realize the security. In subsequent periods, any change in present value of estimated future cash flows attributable to the passage of time adjusts the allowance for credit losses through the unwind adjustment. The unwind adjustment is recorded in interest income.

2. Significant accounting policies (continued)

Collective allowance – If FCC determines that no objective evidence of impairment exists for an individually assessed loan or lease, it is assessed on a collective basis. In making the collective assessment of impairment, management groups the loans and leases into portfolios with similar credit risk characteristics. Future cash flows for these portfolios are estimated on the basis of underlying security values and historical loss experience, considering customer, loan and security characteristics. The collective assessment of impairment for loans is broken down into three components: triggered loan pool, general loan pool and overlay.

- Triggered loan pool – Loans are included in this pool if any one of the following loss events has occurred:
  1. All loans for customers with any one loan that has an amount greater than $500 past due for 90 or more consecutive days.
  2. All loans for customers with any one loan that has had an amortization extension to the payment schedule in the last 12 months.
  3. Any individual loan that has had a 15-point risk scoring and pricing system (RSPS) score drop when compared to its RSPS score 12 months ago.

- General loan pool – This assessment considers credit losses that have been incurred on loans that do not meet the criteria to be in either the individual or triggered loan pools. It is based on the historical movement of loans from performing status to either the triggered or individually impaired loan pools.

- Overlay – FCC uses the overlay to adjust its historical loss experience reflected in the triggered loan pool and general loan pool components of the collective assessment for current market conditions.

For select portions of FCC's portfolio, the above process is tailored to capture the unique characteristics of these loans to identify and measure impairment more accurately. For these loans, the individual loss event is considered to be 180 days past due. For the collective allowance, FCC considers the historical movement of performing loans to impaired status, along with the calculation of expected future cash flows estimated using historical probabilities of default and loss given default.

Investment in associates

FCC holds investments in Avrio Fund I, Avrio Fund II and Avrio Fund III (collectively the Avrio Equity Funds) which are venture capital limited partnerships operating in Calgary, Alberta, which are associates of FCC. An associate is an entity over which FCC has significant influence. FCC has the power to participate in the financial and operating policy decisions of the investee but does not have control over those policies. The Avrio Equity Funds are accounted for using the equity method. Under the equity method of accounting, investments are initially recorded at cost, and the carrying amount is increased or decreased to recognize FCC's share of investee net income or loss. The investment is recorded as investment in associates in FCC's Consolidated Balance Sheet and its share of the net income or loss is recorded in net income from investment in associates in its Consolidated Statement of Income. An adjustment has been made for significant intervening transactions and changes in fair value of investments occurring between the December 31 year-end of the Avrio Equity Funds and FCC's year-end.

Venture capital investments

Venture capital investments include investments held by the Avrio Subordinated Debt Funds. FCC has designated its venture capital investments at FVTPL, as they are managed and their performance is evaluated on a fair value basis in accordance with a documented investment strategy.

Venture capital investments are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Interest on debt and fee income are recognized when receivable and included in interest income.

2. Significant accounting policies (continued)

Post-employment benefits

FCC has a registered defined benefit pension plan, three supplemental defined benefit pension plans, a registered defined contribution pension plan, a supplemental defined contribution plan and other defined benefit plans that provide retirement and post-employment benefits to most of its employees. The defined benefit pension plan and the defined contribution pension plan are registered under the Pension Benefits Standards Act, 1985, registration no. 57164. They are registered pension trusts as defined in the Income Tax Act and are not subject to income taxes. The defined benefit pension plan is based on employees' number of years of service and the average salary of their five highest-paid consecutive years of service. It is protected against inflation. The supplemental defined benefit and supplemental defined contribution pension plans are available for employees whose benefits under the registered plans are limited by the Income Tax Act maximum limits.

Retirement benefit plans are contributory health care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans provide short-term disability income benefits, severance entitlements after employment and health care benefits to employees on long-term disability.

The defined benefit obligations for pension and other defined benefit plans are actuarially determined using the projected unit credit actuarial valuation method, which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. Plan assets are measured at fair value.

FCC measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year.

The net asset or liability for defined benefit obligations represents the present value of the defined benefit obligation reduced by the fair value of plan assets. The defined benefit asset is limited to the value determined by the asset ceiling. The value of the asset is restricted to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan.

Defined benefit costs are split into three categories:

- service costs, past service costs, gains and losses on curtailments and settlements, plan administration costs and the tax effect on refundable tax assets
- net interest expense or income on the net defined benefit liability
- remeasurements of the net defined benefit liability

Contributions to the defined contribution pension plan are recognized as an expense when employees have rendered service entitling them to the contributions. Unpaid contributions are recognized as a liability.

Past service costs arising from plan amendments are recognized immediately in salaries and benefits in the period of the plan amendment.

Net interest, current service costs, gains and losses on curtailments and settlements, plan administration costs and the tax effect on refundable tax assets are recognized immediately in salaries and benefits in net income. Net interest is calculated by applying the discount rate used to discount the post-employment benefit obligations to the net asset or liability for defined benefit obligations.

Remeasurements include actuarial gains and losses, experience adjustments on plan liabilities, the change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability, if applicable) and the return on plan assets (excluding interest on the net defined benefit liability). Actuarial gains or losses arise from changes in actuarial assumptions used to determine the defined benefit obligations. Remeasurements are recognized immediately in OCI in the period in which they occur and flow into retained earnings in the Consolidated Balance Sheet.

2. Significant accounting policies (continued)

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the equipment or leasehold improvement. Subsequent expenditures, including replaced parts, are included in the equipment or leasehold improvement's carrying value or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to FCC and the cost of the item can be measured reliably. The carrying value of the replaced part is derecognized. All repair and maintenance costs are expensed during the period in which they are incurred.

Depreciation begins when the equipment or leasehold improvement is available for use by FCC. Depreciation is calculated using the straight-line method to allocate the cost less estimated residual value of the asset over the following terms:

	Terms
Office equipment and furniture	5 years
Computer equipment	3 or 5 years
Leasehold improvements	Shorter of lease term or asset's useful economic life

The residual values and useful lives are reviewed annually and adjusted, if appropriate. Equipment and leasehold improvements are reviewed annually for indicators of impairment and, if indicators exist, FCC estimates the recoverable amount of the asset. The estimated recoverable amount is the higher of the fair value less the costs to sell and the value in use. If the carrying value is greater than the estimated recoverable amount, an impairment loss would be recognized to reduce the carrying value to the estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying value and are included in facilities, software and equipment expense.

Computer software

Computer software is recorded at cost less accumulated amortization. Expenditures on internally developed software are recognized as assets when FCC is able to demonstrate its intention and ability to complete the development, to use the software in a manner that will generate future economic benefits and to reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software.

Amortization begins when the software is available for use by FCC. Amortization is recorded over the estimated useful life of three or five years using the straight-line method.

Software is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such indications exist, the carrying value is analyzed to assess whether it is fully recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount.

Equipment under operating leases

When FCC is the lessor in a lease arrangement that does not transfer substantially all of the risks and rewards incidental to ownership to the lessee, then the arrangement is classified as an operating lease. Equipment under operating leases is recorded at cost less accumulated depreciation. Equipment is depreciated on a straight-line basis over its useful life to FCC, which is equivalent to the term of the lease. Depreciation is included in interest expense.

2. Significant accounting policies (continued)

Lease income from operating leases is recognized on a straight-line basis over the term of the lease and included in interest income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and recognized on a straight-line basis over the lease term.

Equipment under operating leases is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such indications exist, the carrying value is analyzed to assess whether it is fully recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount.

Insurance

FCC sells group creditor life and accident insurance to its customers through a program administered by a major insurance provider. The insurance premiums are actuarially determined and are accrued when receivable and recorded in net insurance income.

Insurance claims expense, included in net insurance income, consists of paid claims that are recorded as incurred throughout the year, an accrual for insurance claims payable at year-end for claims that have been incurred as at the balance sheet date and adjustments to the reserve for insurance claims. The reserve for insurance claims represents the liability that, together with estimated future premiums and net investment income on insurance reserve assets, will provide for outstanding claims, estimated future benefits, taxes and expenses. The reserve for insurance claims is recorded at fair value and included in other liabilities. The reserve is actuarially determined using the Canadian Asset Liability Method and prepared on a going concern basis, taking into account the appropriate degree of risk inherent in the obligation, as described in Note 26. Changes in estimates are recorded when made and are included in net insurance income.

FCC maintains a restricted insurance reserve asset, which is included in other assets, with the insurance provider to fund future claim payments. Interest is paid on the insurance reserve asset by the insurance provider annually and is recorded in other income.

Expenses related to administering the insurance program are recorded in other expenses. The accrual for insurance claims payable is classified as other financial liabilities, measured at amortized cost using the effective interest method and included in accounts payable and accrued liabilities.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost using the effective interest method.

Borrowings

Government of Canada borrowings are undertaken with the approval of the Minister of Finance. Government of Canada borrowings are direct obligations of FCC and therefore constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Capital market debt includes short-term U.S. dollar fixed-rate promissory notes and short- and long-term retail and institutional fixed-rate notes.

Borrowings are accounted for using trade date accounting, and are classified as other financial liabilities and measured at amortized cost using the effective interest method.

Interest incurred on all borrowings is recorded on an accrual basis and recognized in interest expense using the effective interest method.

2. Significant accounting policies (continued)

Transition loan liabilities

FCC records a transition loan liability that represents amounts owing to third parties upon the signing of a contract that requires FCC to pay amounts in accordance with a disbursement schedule relating to undisbursed transition loans, which are included in loans receivable. As payments are made in accordance with the transition loan disbursement schedule, the applicable amount of the transition loan liability is reduced. Transition loan liabilities are recorded at amortized cost using the effective interest method.

Government assistance

FCC is one of the financial institutions participating in the HILLRP. Under the HILLRP, the Government of Canada has established a loan loss reserve fund to share the net credit losses on eligible loans provided to hog operations with certain financial institutions. FCC is responsible for all credit losses beyond those covered by the loan loss reserve fund and must meet certain eligibility requirements to access the reserve fund. The amount of funds available from the loan loss reserve fund to FCC for any non-performing eligible loans are 90%, 80% and 70% of net credit losses in years one to three, four to six and seven to 15, respectively. Amounts held by FCC to which it is not entitled are paid back to the Government of Canada at the end of the program. FCC's deadline for disbursing the loans eligible under this program has passed and no further loan loss reserve fund instalments are due from the Government of Canada.

Management estimates the amount of the loan loss reserve fund to which FCC is entitled under the HILLRP. This estimate is accounted for as a reduction to FCC's provision for credit losses. The remaining amount of the loan loss reserve fund, to which FCC is not entitled, is recorded as borrowings. Interest on this borrowing is recorded in interest expense.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs relating to loans and receivables and borrowings classified as other liabilities are deferred and amortized over the instrument's expected useful life using the effective interest method. Transaction costs related to all other financial instruments are expensed as incurred.

Operating lease payments

Payments on operating lease agreements are expensed on a straight-line basis over the lease term. Associated costs are expensed as incurred.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses on loans and receivables are included in interest income, and exchange gains and losses on borrowings are included in interest expense.

Segmented information

FCC is organized and managed as a single business segment, which is agriculture lending. All of FCC's revenues are within Canada.

2. Significant accounting policies (continued)

Significant management judgments in applying accounting policies

The following are critical management judgments used in applying FCC's accounting policies.

- **Significant influence over Avrio Fund III**

  FCC has determined that it exerts power over operating, investing and financing decisions, and thus has significant influence over Avrio Fund III at March 31, 2017, while holding less than 20% voting control (Note 24).

- **Finance leases receivable**

  In applying the classification of leases in IAS 17 – Leases, management considers leases of agricultural equipment to be either finance or operating lease arrangements. In some cases, the lease transaction is not always conclusive and management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

- **Computer software**

  A significant portion of FCC's computer software expenditures relates to software that is developed as part of internal infrastructures and, to a lesser extent, purchased directly from suppliers. Management has a process to monitor the progress of internal research and development projects. Significant judgment is required in distinguishing between the research and development phases. Research costs are expensed as incurred, whereas development costs are recognized as an asset when all criteria are met. Management monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

Estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires that management makes judgments, estimates and assumptions concerning the future that affect the reported amounts in the consolidated financial statements and accompanying notes. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these judgments, estimates and assumptions. Information about the significant judgments, estimates and assumptions that are critical to the recognition and measurement of assets, liabilities, income and expense is discussed below.

- **Allowance for credit losses**

  The loan and lease portfolio is reviewed by management to assess impairment. Judgments are made when determining whether a loss event has occurred, and estimates and assumptions are made in measuring the resulting impairment loss. Management uses best estimates based on historical loss experience for loans and leases with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

- **Post-employment benefit assets and liabilities**

  The estimate of the post-employment benefit assets and liabilities or pension and non-pension post-retirement benefits is actuarially determined and incorporates management's best estimate of future salary levels, other cost escalation, employees' retirement ages and other actuarial assumptions. The discount rate is one of the more significant assumptions used. It is the interest rate that determines the present value of estimated future cash outflows expected to be required to settle the pension obligations. Management determines the appropriate discount rate at the end of each year. In doing this, management considers the interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Any changes in these assumptions will affect the carrying values of post-employment benefit assets and liabilities.

2. Significant accounting policies (continued)

- **Reserve for insurance claims**

  The reserve for insurance claims is based on certain estimates and assumptions, including expected future mortality experience and interest rates. Higher mortality experience and increased interest rates would be financially adverse to FCC. FCC's mortality experience is combined with industry experience, since FCC's own experience is insufficient to be statistically credible.

- **Useful lives of depreciable assets**

  During the software development process and when new equipment, leasehold improvements and computer software are being purchased, management's judgment and estimates are required to determine the expected period of benefit over which capitalized costs should be amortized. Management reviews the useful lives of depreciable assets at each reporting date. Actual results may vary because of technical obsolescence, particularly for software and information technology equipment, due to rapidly changing technology and the uncertainty of the software development process.

- **Fair value of financial instruments**

  The fair value of financial instruments is determined based on published quoted market prices or valuation techniques when quoted market prices are not available. Fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, based on either observable or non-observable market inputs. As such, fair values are estimates involving uncertainties and may be significantly different when compared to another financial institution's value for a similar contract. The methods used to value FCC's financial instruments measured at fair value are as follows:

  - The estimated fair value of temporary investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent securities.

  - The estimated fair value of derivative financial assets and liabilities is determined using market standard valuation techniques. Where call or extension options exist, the value of these options is determined using current market measures for interest rates and currency exchange rates and by taking volatility levels and estimations for other market-based pricing factors into consideration. Market-observed credit spreads, where available, are a key factor in establishing valuation adjustments against FCC's counterparty credit exposures. Where the counterparty does not have an observable credit spread, a proxy that reflects the counterparty's credit profile is used.

  - The estimated fair value of venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date with equivalent risk and terms to maturity.

2. Significant accounting policies (continued)

Accounting standards issued but not yet effective

FCC has reviewed the new standards and amendments that have been issued but are not yet effective and determined that the following may have an impact on FCC in the future. Management is in the process of assessing the impact of these standards and amendments on FCC's financial statements and accounting policies, and therefore the extent of the impact of the adoption of these standards and amendments is unknown. A number of other new standards, amendments and improvements that have been issued by the IASB bu[illegible]re not yet effective are not listed below as FCC determined that they will not have a significant impact on the cons[illegible]ted financial statements.

Standard	Details	Date of initial application
IAS 7 – Statement of cash flows	In January 2016, the IASB issued amendments to IAS 7 which will require specific disclosures for movements in certain liabilities on the statement of cash flows. It is anticipated that additional disclosures will be added to FCC's notes to the consolidated financial statements.	April 1, 2017
IFRS 9 – Financial instruments	In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. It is anticipated this standard will change the classification of FCC's temporary investments and cash equivalents from AFS to amortized cost and will change the measurement of FCC's venture capital investments from FVTPL to amortized cost. IFRS 9 also introduces an expected loss impairment model for all financial assets not at FVTPL and certain off-balance sheet loan commitments and guarantees. An enterprise-wide project has been established to meet the requirement to adopt IFRS 9. It is supported by a formal governance framework and a robust implementation plan. The IFRS 9 expected loss impairment model has three stages: (1) On initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established. (2) If credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, then entities shall revert to recognizing 12 months of expected credit losses. (3) When a financial asset is considered credit-impaired, full lifetime expected credit losses are recognized and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. As permitted, we will not re-state our prior period comparative consolidated financial statements when we adopt the requirements of the new standard. We will recognize an adjustment to our opening April 1, 2018, retained earnings to reflect the application of the new requirements at the adoption date.	April 1, 2018

2. Significant accounting policies (continued)

IFRS 16 – Leases	*In January 2016, the IASB issued IFRS 16, which requires all leases to be reported on* a lessee's balance sheet as assets and liabilities. There are also changes in accounting over the life of the lease. In particular, lessees will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. It is anticipated this standard will result in an increase in both lease assets and lease liabilities on the balance sheet as well as an accelerated pattern for expense recognition. Lessor accounting remains similar to current practice as lessors continue to classify leases as finance and operating leases.	*April 1, 2019*
IFRS 17 – Insurance contracts	In May 2017, the IASB issued IFRS 17, which provides a single principle-based standard to account for all types of insurance contracts. IFRS 17 provides updated information about the obligations, risks and performance of insurance contracts and increases transparency in financial information reported by insurance companies, which will give investors and analysts more confidence in understanding the insurance industry. It also introduces consistent accounting for all insurance contracts based on a current measurement model. FCC is assessing the impact of this standard and the extent of the impact of the adoption is unknown at this time.	April 1, 2021

3. Temporary investments

As at March 31, 2017, temporary investments were $435.5 million (2016 – $337.0 million) with a yield of 0.67% (2016 – 0.63%). They consisted of deposit notes and treasury bills issued by institutions with credit ratings of A or higher (2016 – A or higher) as rated by Standard and Poor's Ratings Services (S&P). As at March 31, 2017, the largest total investment in any one institution was $177.0 million (2016 – $103.6 million).

All temporary investments have an initial term to maturity of 91 – 365 days and will mature within 11 months of the balance sheet date.

4. Accounts receivable and prepaid expenses

As at March 31 ($ thousands)	2017	2016
Amounts receivable from pending borrowing	**$ 370,000**	$ –
Other	**29,110**	24,820
	$ 399,110	$ 24,820

Amounts receivable from pending borrowing consist of borrowings which remained unsettled at the end of the reporting year. The fair value of amounts receivable from pending borrowing is the value at which the borrowing was undertaken.

5. Derivative financial instruments

As at March 31, 2017, derivative financial assets were $35.8 million (2016 – $47.5 million) and derivative financial liabilities were $2.6 thousand (2016 – $422.0 thousand).

The derivative contracts entered into by FCC are over-the-counter interest rate swaps. They are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments and receipts are based are not exchanged. FCC is exposed to variability in future interest cash flows on non-trading assets that bear interest at variable rates.

As at March 31, 2017, the estimated amount of existing net gains reported in accumulated other comprehensive income (AOCI) that is expected to be transferred to net income within the next 12 months is $21.7 million (2016 – $21.7 million).

Notional principal amounts and term to maturity

As at March 31 ($ thousands)		2017			
		Within 1 year	1-5 years	Over 5 years	Total
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	$ –	$ 237,994	$ –	$ 237,994
Floating	Fixed	–	–	13,299	13,299
		$ –	$ 237,994	$ 13,299	$ 251,293

As at March 31 ($ thousands)		2016			
		Within 1 year	1-5 years	Over 5 years	Total
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	$ –	$ 17,870	$ 220,124	$ 237,994
Floating	Fixed	–	–	12,987	12,987
		$ –	$ 17,870	$ 233,111	$ 250,981

Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time, FCC can expect to receive cash flows from the counterparties based on the terms of the contract and current market conditions. The master netting agreements in place have no impact on the fair values at March 31, 2016, and March 31, 2017.

The fair values of the derivative financial instruments are as follows:

As at March 31 ($ thousands)	2017		
	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 35,831	$ 3	$ 35,828
Cash collateral due to derivative counterparties	–	–	–
Fair value	$ 35,831	$ 3	$ 35,828

5. Derivative financial instruments (continued)

As at March 31 ($ thousands)	2016		
	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 47,510	$ 422	$ 47,088
Cash collateral due to derivative counterparties	–	5,353	(5,353)
Fair value	$ 47,510	$ 5,775	$ 41,735

FCC does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa3, A+ and AA or higher, as rated by Moody's Investors Service (Moody's), S&P, and the Dominion Bond Rating Service (DBRS), respectively. The largest cumulative notional amount contracted with any institution as at March 31, 2017, was $125.0 million (2016 – $125.0 million), and the largest net fair value of contracts with any institution as at March 31, 2017, was $16.8 million (2016 – $23.3 million). FCC mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 26. These agreements create the legal right to offset exposure in the event of default.

6. Loans receivable – net

The following tables summarize the contractual maturity of the gross loans receivable.

As at March 31 ($ thousands)	2017			
	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 3,026,214	$ 13,338,504	$ 651,522	$ 17,016,240
Fixed	3,349,569	8,914,076	1,964,538	14,228,183
Gross loans receivable	$ 6,375,783	$ 22,252,580	$ 2,616,060	$ 31,244,423
Deferred loan fees				(23,758)
Loans receivable – total				31,220,665
Allowance for credit losses (Note 8)				(213,615)
Loans receivable – net				$ 31,007,050

As at March 31 ($ thousands)	2016			
	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 2,844,528	$ 13,024,565	$ 645,708	$ 16,514,801
Fixed	2,645,690	7,548,226	1,968,099	12,162,015
Gross loans receivable	$ 5,490,218	$ 20,572,791	$ 2,613,807	$ 28,676,816
Deferred loan fees				(21,139)
Loans receivable – total				28,655,677
Allowance for credit losses (Note 8)				(210,030)
Loans receivable – net				$ 28,445,647

Management estimates that annually, over the next three years, approximately 5.8% (2016 – approximately 5.6%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2017, $497.7 million (2016 – $450.5 million) of loans receivable were denominated in U.S. dollars (USD).

6. Loans receivable – net (continued)

Concentrations of credit risk

The concentrations of gross loans and impaired loans by enterprise and geographic area are as follows:

Enterprise distribution

	Gross		Impaired	
As at March 31 ($ thousands)	2017	2016	2017	2016
Oilseed and grain	$ 9,412,531	$ 8,519,358	$ 11,513	$ 10,200
Dairy	5,773,209	5,255,906	4,249	2,702
Agribusiness	2,950,494	2,690,327	24,227	31,568
Poultry	2,340,426	2,111,516	–	2,621
Part-time farming	1,972,545	1,875,575	20,573	19,105
Beef	1,912,925	1,718,997	2,743	6,665
Other	1,666,888	1,480,666	30,880	32,052
Agri-food	1,160,317	1,064,406	28,991	50,668
Greenhouse	1,097,946	999,703	10,776	11,921
Fruit	1,051,133	1,026,129	23,496	40,647
Alliances	1,015,630	1,080,320	12,225	10,470
Hogs	890,379	853,913	8,263	7,449
Total	$ 31,244,423	$ 28,676,816	$ 182,936	$ 231,068

Geographic distribution

	Gross		Impaired	
As at March 31 ($ thousands)	2017	2016	2017	2016
Ontario	$ 9,535,590	$ 8,836,895	$ 22,122	$ 35,291
Alberta and British Columbia	9,127,845	8,462,635	75,808	98,013
Saskatchewan	5,177,713	4,592,517	12,311	20,486
Quebec	3,880,438	3,544,143	39,091	45,097
Manitoba	2,334,569	2,130,095	4,805	8,587
Atlantic	1,188,268	1,110,531	23,799	23,594
Total	$31,244,423	$ 28,676,816	$ 182,936	$ 231,068

7. Finance leases receivable – net

As at March 31 ($ thousands)	2017	2016
Total minimum finance lease payments receivable		
Less than one year	$ 6,498	$ 6,046
Between one and five years	11,048	9,625
Finance leases receivable – gross	17,546	15,671
Unearned finance income	(1,029)	(906)
Allowance for credit losses (Note 8)	(49)	(29)
Finance leases receivable – net	$ 16,468	$ 14,736

FCC retains as collateral a security interest in the equipment associated with finance leases. The maximum term for finance leases receivable is five years.

8. Allowance for credit losses

As at March 31 ($ thousands)	2017			2016		
	Loans receivable	Finance leases receivable	Total	Loans receivable	Finance leases receivable	Total
Individual allowance, beginning of year	$ 87,686	$ –	$ 87,686	$ 93,433	$ –	$ 93,433
Provision for credit losses	5,030	–	5,030	30,601	–	30,601
Losses covered under HILLRP	732	–	732	(1,313)	–	(1,313)
Unwind adjustment on impaired loans	(3,403)	–	(3,403)	(2,630)	–	(2,630)
Writeoffs	(15,096)	–	(15,096)	(35,700)	–	(35,700)
Recoveries	3,421	–	3,421	3,295	–	3,295
Individual allowance, end of year	78,370	–	78,370	87,686	–	87,686
Collective allowance, beginning of year	122,344	29	122,373	112,823	31	112,854
Provision for credit losses	14,239	20	14,259	11,983	(2)	11,981
Losses covered under HILLRP	(241)	–	(241)	577	–	577
Writeoffs	(1,743)	–	(1,743)	(3,719)	–	(3,719)
Recoveries	646	–	646	680	–	680
Collective allowance, end of year	135,245	49	135,294	122,344	29	122,373
Total allowance	$ 213,615	$ 49	$ 213,664	$ 210,030	$ 29	$ 210,059

9. Investment in associates

Summarized financial information for FCC's associates is set out below. The summarized financial information represents amounts prepared in accordance with IFRS and adjusted for significant intervening transactions FCC has used this information for equity accounting purposes.

As at March 31 ($ thousands)	2017			
	Avrio Fund I	Avrio Fund II	Avrio Fund III	Total
Revenue	$ 575	$ 4,023	$ 130	$ 4,728
Net income	367	6,202	(4,638)	1,931
Assets	225	76,640	22,558	99,423
Liabilities	140	50	3,215	3,405
Net assets	85	76,590	19,343	96,018
Proportion of FCC's ownership	66.9%	54.7%	46.3%	
Carrying amount of FCC's interest	$ 57	$ 41,895	$ 8,956	$ 50,908

9. Investment in associates (continued)

As at March 31 ($ thousands)	2016			
	Avrio Fund I	Avrio Fund II	Avrio Fund III	Total
Revenue	$ 19,427	$ 6,521	$ –	$ 25,948
Net income	14,367	9,035	(2,453)	20,949
Assets	2,374	95,685	4,119	102,178
Liabilities	471	47	11	529
Net assets	1,903	95,638	4,108	101,649
Proportion of FCC's ownership	66.9%	54.7%	46.3%	
Carrying amount of FCC's interest	$ 1,273	$ 52,314	$ 1,902	$ 55,489

Distributions received during the year were $29.4 million (2016 – $77.7 million).

10. Venture capital investments

As at March 31, 2017, $55.0 million (2016 – $42.0 million) of venture capital investments was carried in debt investments. Of these debt investments, $nil (2016 – $nil) is due to FCC within one year, $47.5 million (2016 – $32.0 million) is due between one and five years and $7.5 million (2016 – $10.0 million) is due later than five years.

Concentrations of venture capital investments by sector

As at March 31 ($ thousands)	2017	2016
Food processing and manufacturing	$ **42,407**	$ 41,008
Commercial-scale primary producers	**12,608**	–
Bio-based fuels and chemicals	–	969
	$ **55,015**	$ 41,977

The venture capital investment portfolio exposes FCC to credit risk. Venture capital investments are typically secured by a general security agreement, assignment of life insurance proceeds and personal guarantees. As at March 31, 2017, there were no venture capital debt investments past due (2016 – $nil).

11. Post-employment benefits

Financial position of benefit plans

FCC measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year.

The amounts recognized in the Consolidated Balance Sheet are as follows:

	Registered pension plan	
As at March 31 ($ thousands)	**2017**	2016
Present value of funded defined benefit obligations	**$ (686,090)**	$ (668,578)
Fair value of plan assets	**739,626**	651,472
Net asset (liability) for defined benefit obligations	**$ 53,536**	$ (17,106)

	Supplemental pension plans	
As at March 31 ($ thousands)	**2017**	2016
Present value of funded defined benefit obligations	**$ (64,950)**	$ (58,136)
Fair value of plan assets	**45,658**	41,553
Funded status	**(19,292)**	(16,583)
Present value of unfunded defined benefit obligations	**(14,257)**	(14,630)
Net liability for defined benefit obligations	**$ (33,549)**	$ (31,213)

	Other benefits	
As at March 31 ($ thousands)	**2017**	2016
Present value of unfunded defined benefit obligations	**$ (105,160)**	$ (97,980)
Net liability for defined benefit obligations	**$ (105,160)**	$ (97,980)

The total net asset for defined benefit obligations is $53.5 million (2016 – $nil). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit assets. The total net liability for defined benefit obligations is $138.7 million (2016 – $146.3 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit liabilities.

11. Post-employment benefits (continued)

Movements in the present value of the defined benefit obligation

	Registered pension plan		Supplemental pension plans		Other benefits	
As at March 31 ($ thousands)	**2017**	2016	**2017**	2016	**2017**	2016
Defined benefit obligation, beginning of year	**$ 668,578**	$ 650,819	**$ 72,766**	$ 72,035	**$ 97,980**	$ 93,790
Current service cost	**23,320**	27,663	**1,276**	1,816	**6,750**	6,991
Interest cost on the defined benefit obligation	**25,444**	23,771	**2,711**	2,556	**3,854**	3,511
Contributions by employees	**8,393**	7,729	**486**	312	**–**	–
Benefits paid	**(16,862)**	(14,221)	**(1,986)**	(2,257)	**(902)**	(1,061)
Experience adjustments on plan liabilities	**(8,859)**	1,571	**5,427**	1,269	**(229)**	(22)
Actuarial gain from changes in liability assumptions	**(13,924)**	(28,754)	**(1,473)**	(2,965)	**(2,293)**	(5,229)
Defined benefit obligation, end of year	**$ 686,090**	$ 668,578	**$ 79,207**	$ 72,766	**$ 105,160**	$ 97,980

The duration of the registered pension plan's defined benefit obligation is 19 years (2016 – 21 years). The duration of the supplemental pension plan's defined benefit obligation is 19 years (2016 – 19 years). The duration of the other benefit plan's defined benefit obligation is 26 years (2016 – 26 years).

Movements in the fair value of plan assets

	Registered pension plan		Supplemental pension plans		Other benefits	
As at March 31 ($ thousands)	**2017**	2016	**2017**	2016	**2017**	2016
Fair value of plan assets, beginning of year	**$ 651,472**	$ 627,232	**$ 41,553**	$ 45,849	**$ –**	$ –
Interest income on plan assets	**24,495**	22,532	**1,626**	1,583	**–**	–
Return on plan assets greater (less) than the discount rate	**42,552**	(31,680)	**(602)**	(4,579)	**–**	–
Contributions by FCC	**30,287**	40,465	**6,413**	1,018	**902**	1,061
Contributions by employees	**8,393**	7,729	**486**	312	**–**	–
Benefits paid	**(16,862)**	(14,221)	**(1,986)**	(2,257)	**(902)**	(1,061)
Plan administration costs	**(711)**	(585)	**(147)**	(174)	**–**	–
Tax effect on refundable tax assets	**–**	–	**(1,685)**	(199)	**–**	–
Fair value of plan assets, end of year	**$ 739,626**	$ 651,472	**$ 45,658**	$ 41,553	**$ –**	$ –

11. Post-employment benefits (continued)

Defined benefit costs recognized in net income

	Registered pension plan		Supplemental pension plans		Other benefits		Total	
For the year ended March 31 ($ thousands)	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Current service cost	**$ 23,320**	$ 27,663	**$ 1,276**	$ 1,816	**$ 6,750**	$ 6,991	**$ 31,346**	$ 36,470
Net interest	**949**	1,239	**1,085**	973	**3,854**	3,511	**5,888**	5,723
Plan administration costs	**711**	585	**147**	174	**–**	–	**858**	759
Tax effect on refundable tax assets	**–**	–	**876**	199	**–**	–	**876**	199
	$ 24,980	$ 29,487	**$ 3,384**	$ 3,162	**$ 10,604**	$ 10,502	**$ 38,968**	$ 43,151

Defined benefit costs recognized in OCI

	Registered pension plan	
For the year ended March 31 ($ thousands)	**2017**	2016
Experience adjustments on plan liabilities	**$ 8,859**	$ (1,571)
Return on plan assets greater (less) than the discount rate	**42,552**	(31,680)
Changes in liability assumptions	**13,924**	28,754
Remeasurement gain (loss)	**$ 65,335**	$ (4,497)

	Supplemental pension plans	
For the year ended March 31 ($ thousands)	**2017**	2016
Experience adjustments on plan liabilities	**$ (5,427)**	$ (1,269)
Return on plan assets less than the discount rate	**(602)**	(4,579)
Changes in liability assumptions	**1,473**	2,965
Tax effect on refundable tax assets	**(809)**	-
Remeasurement loss	**$ (5,365)**	$ (2,883)

	Other benefits	
For the year ended March 31 ($ thousands)	**2017**	2016
Experience adjustments on plan liabilities	**$ 229**	$ 22
Changes in liability assumptions	**2,293**	5,229
Remeasurement gain	**$ 2,522**	$ 5,251

Total remeasurement gains of $62.5 million (2016 – $2.1 million loss) are recognized in OCI. The cumulative remeasurement losses recognized in OCI as at March 31, 2017, were $50.3 million (2016 – $112.8 million).

11. Post-employment benefits (continued)

Plan assets

The percentages of plan assets by asset type based on market values at the most recent actuarial valuation are as follows:

	Registered pension plan		Supplemental pension plans	
As at March 31	**2017**	2016	**2017**	2016
Equity securities	**61.3%**	57.6%	**92.6%**	99.2%
Debt securities	**27.8%**	30.1%	**0.1%**	0.1%
Real estate	**10.1%**	10.6%	**–**	–
Cash	**0.8%**	1.7%	**7.3%**	0.7%
	100.0%	100.0%	**100.0%**	100.0%

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	Registered pension plan		Supplemental pension plans		Other benefits	
As at March 31	**2017**	2016	**2017**	2016	**2017**	2016
Defined benefit obligation						
Discount rate	**3.80%**	3.70%	**3.80%**	3.70%	**3.80%**	3.70%
Rate of compensation increase	**4.00%**	4.00%	**4.00%**	4.00%	**4.00%**	4.00%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–
Defined benefit costs						
Discount rate	**3.70%**	3.50%	**3.70%**	3.50%	**3.70%**	3.50%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–

At March 31, 2017 and 2016, the mortality assumption for the defined benefit obligation is based on the 2014 Public Sector Mortality publication and Canadian Pensioners Mortality Improvement Scale B, with pension size adjustment factors for males of 0.8614 and for females of 0.9855. As at March 31, 2017, the average life expectancy of an individual retiring at age 65 is 24 years for males (2016 – 24 years) and 25 years for females (2016 – 25 years).

Assumed health care cost trend rates are as follows:

As at March 31	**2017**	2016
Extended health care and dental care cost escalation		
Initial rate	**7.00%**	7.50%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2021**	2021

11. Post-employment benefits (continued)

Sensitivity analysis

The impact of changing the key weighted-average economic assumptions used in measuring the defined benefit obligation is as follows:

As at March 31 ($ thousands)	2017		
Increase (decrease) defined benefit obligation	Registered pension plan	Supplemental pension plans	Other benefits
1% increase in discount rate	$ (119,369)	$ (13,164)	$ (23,923)
1% decrease in discount rate	159,909	16,285	34,266
0.25% increase in rate of compensation increase	5,680	2,028	112
0.25% decrease in rate of compensation increase	(5,619)	(2,471)	(112)
1% increase in consumer price index	111,644	12,212	–
1% decrease in consumer price index	(89,937)	(10,645)	–
One year increase in expected lifetime of plan participants	15,071	1,352	4,009
1% increase in assumed overall health care cost trend rates	–	–	30,507
1% decrease in assumed overall health care cost trend rates	–	–	(21,837)

Defined contribution pension plans

The cost of the defined contribution pension plans is recorded based on the contributions in the current year and is included in salaries and benefits. For the year ended March 31, 2017, the expense was $6.0 million (2016 – $5.3 million).

Total cash payments

Total cash payments for post-employment benefits, consisting of cash contributed by FCC to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution pension plan, were $44.0 million (2016 – $47.7 million).

Total cash payments for post-employment benefits for 2018, as described in the preceding paragraph, are anticipated to be approximately $52.9 million.

12. Equipment and leasehold improvements

($ thousands)	Leasehold improvements	Office equipment and furniture	Computer equipment	Total
Cost				
Balance as at March 31, 2015	$ 51,989	$ 28,515	$ 13,562	$ 94,066
Additions	7,434	2,170	4,380	13,984
Disposals	(4,579)	(4,101)	(849)	(9,529)
Balance as at March 31, 2016	54,844	26,584	17,093	98,521
Additions	3,859	605	4,976	9,440
Disposals	(3,824)	(309)	(5,286)	(9,419)
Balance as at March 31, 2017	**$ 54,879**	**$ 26,880**	**$ 16,783**	**$ 98,542**
Accumulated depreciation				
Balance as at March 31, 2015	$ 40,753	$ 24,869	$ 11,302	$ 76,924
Depreciation	4,242	1,732	2,837	8,811
Disposals	(4,531)	(4,099)	(838)	(9,468)
Balance as at March 31, 2016	40,464	22,502	13,301	76,267
Depreciation	3,267	1,539	2,631	7,437
Disposals	(3,812)	(308)	(5,276)	(9,396)
Balance as at March 31, 2017	**$ 39,919**	**$ 23,733**	**$ 10,656**	**$ 74,308**
Carrying value				
March 31, 2016	$ 14,380	$ 4,082	$ 3,792	$ 22,254
March 31, 2017	**14,960**	**3,147**	**6,127**	**24,234**

13. Computer software

($ thousands)	Internally developed	Purchased	Total
Cost			
Balance as at March 31, 2015	$ 117,078	$ 10,935	$ 128,013
Additions	16,829	1,113	17,942
Disposals	–	–	–
Balance as at March 31, 2016	133,907	12,048	145,955
Additions	10,447	952	11,399
Disposals	(8,931)	(727)	(9,658)
Balance as at March 31, 2017	**$ 135,423**	**$ 12,273**	**$ 147,696**
Accumulated amortization			
Balance as at March 31, 2015	$ 93,592	$ 9,062	$ 102,654
Amortization	9,169	825	9,994
Disposals	–	–	–
Balance as at March 31, 2016	102,761	9,887	112,648
Amortization	10,856	884	11,740
Disposals	(8,931)	(727)	(9,658)
Balance as at March 31, 2017	**$ 104,686**	**$ 10,044**	**$ 114,730**
Carrying value			
March 31, 2016	$ 31,146	$ 2,161	$ 33,307
March 31, 2017	**30,737**	**2,229**	**32,966**

Research and development costs related to internally developed computer software in the amount of $12.4 million (2016 – $13.4 million) have been included within facilities, software and equipment expenses.

14. Equipment under operating leases

($ thousands)	
Cost	
Balance as at March 31, 2015	$ 94,890
Additions	32,704
Disposals	(23,113)
Balance as at March 31, 2016	104,481
Additions	50,043
Disposals	(30,137)
Balance as at March 31, 2017	**$ 124,387**
Accumulated depreciation	
Balance as at March 31, 2015	$ 24,669
Depreciation	15,434
Disposals	(11,006)
Balance as at March 31, 2016	29,097
Depreciation	18,175
Disposals	(13,735)
Balance as at March 31, 2017	**$ 33,537**
Carrying value	
March 31, 2016	$ 75,384
March 31, 2017	**90,850**

15. Other assets

As at March 31 ($ thousands)	2017	2016
Insurance reserve assets	$ 22,143	$ 21,309
Real estate property held for sale	36	36
	$ 22,179	$ 21,345

16. Borrowings

Short-term debt

As at March 31 ($ thousands)	2017	2016
Government of Canada debt		
Floating-rate borrowings	$ 6,026,860	$ 7,960,648
Fixed-rate borrowings	3,883,242	3,939,463
	9,910,102	11,900,111
Capital markets debt		
USD fixed-rate promissory notes[1]	506,037	452,295
	$ 10,416,139	$ 12,352,406

(1) $380.2 million USD (2016 – $348.1 million USD)

Short-term debt by maturity date

As at March 31 ($ thousands)	2017				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 2,449,103	0.52%	$ 506,037	0.77%	$ 2,955,140
From 4 – 6 months	2,473,580	0.53%	–	–	2,473,580
From 7 – 9 months	2,784,453	0.55%	–	–	2,784,453
From 10 – 12 months	2,202,966	0.48%	–	–	2,202,966
	$ 9,910,102		$ 506,037		$ 10,416,139

As at March 31 ($ thousands)	2016				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 3,862,343	0.49%	$ 452,295	0.40%	$ 4,314,638
From 4 – 6 months	2,914,926	0.46%	–	–	2,914,926
From 7 – 9 months	3,239,973	0.48%	–	–	3,239,973
From 10 – 12 months	1,882,869	0.46%	–	–	1,882,869
	$ 11,900,111		$ 452,295		$ 12,352,406

FCC has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2016 – $30.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this credit facility are reversed the next day. As at March 31, 2017, there were no draws on this credit facility (2016 – $nil).

16. Borrowings (continued)

Long-term debt

As at March 31 ($ thousands)	2017	2016
Government of Canada debt		
Floating-rate borrowings	**$ 11,450,675**	$ 7,749,307
Fixed-rate borrowings	**4,748,150**	3,851,430
	16,198,825	11,600,737
Retail and institutional fixed-rate notes	**309,207**	309,642
	16,508,032	$ 11,910,379

Long-term debt by maturity date

As at March 31 ($ thousands)	2017				
	Government of Canada		**Capital markets**		
	Carrying value	**Yield**	**Carrying value**	**Yield**	**Total**
From 1 – 2 years	**$ 6,861,587**	**0.63%**	**$ –**	**–**	**$ 6,861,587**
From 2 – 3 years	**4,874,507**	**0.50%**	**–**	**–**	**4,874,507**
From 3 – 4 years	**1,395,236**	**0.61%**	**18,735**	**4.32%**	**1,413,971**
From 4 – 5 years	**2,809,216**	**0.50%**	**290,472**	**4.37%**	**3,099,688**
Over 5 years	**258,279**	**1.00%**	**–**	**–**	**258,279**
	$ 16,198,825		**$ 309,207**		**$ 16,508,032**

As at March 31 ($ thousands)	2016				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	$ 4,415,300	0.58%	$ –	–	$ 4,415,300
From 2 – 3 years	4,070,118	0.72%	–	–	4,070,118
From 3 – 4 years	2,446,553	0.45%	–	–	2,446,553
From 4 – 5 years	404,392	0.59%	18,735	4.32%	423,127
Over 5 years	264,374	1.36%	290,907	4.37%	555,281
	$ 11,600,737		$ 309,642		$ 11,910,379

17. Other liabilities

As at March 31 ($ thousands)	2017	2016
Reserve for insurance claims	$ 10,012	$ 9,289
Deferred revenues	9,065	8,667
Other	581	337
	$ 19,658	$ 18,293

18. Net interest income

For the year ended March 31 ($ thousands)	2017	2016
Interest income		
Loans and receivables	$ 1,106,963	$ 1,094,568
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income	21,721	23,322
Operating leases	20,912	17,966
Temporary investments and cash equivalents	7,819	8,025
Foreign exchange gains on loans and receivables	6,458	2,140
Finance leases classified as loans and receivables	620	581
Total interest income for financial instruments not at FVTPL	1,164,493	1,146,602
Derivative financial assets and liabilities at FVTPL – net	9,130	11,084
Venture capital investments at FVTPL	5,505	3,798
	1,179,128	1,161,484
Interest expense		
Long-term debt classified as other liabilities	130,364	135,168
Short-term debt classified as other liabilities	24,606	18,759
Depreciation on equipment under operating leases	18,063	15,434
Foreign exchange losses on cash and short-term debt classified as other liabilities – net	6,386	3,001
Transition loan liabilities classified as other liabilities	2,989	2,595
Total interest expense for financial instruments not at FVTPL	182,408	174,957
Net interest income	$ 996,720	$ 986,527

The total net fee income that was recognized immediately in net interest income arising from financial assets and liabilities not measured at FVTPL was ($83.5) thousand (2016 – $5,272.7 thousand). Interest income recognized from the unwinding of discounts on impaired financial assets was $3.4 million (2016 – $2.6 million).

19. Administration expenses

As at March 31 ($ thousands)	2017	2016
Salaries	$ 162,432	$ 156,784
Benefits	67,771	69,178
Facilities, software and equipment	47,395	40,150
Professional fees	37,632	32,937
Amortization and depreciation	19,177	18,805
Travel and training	12,677	13,409
Marketing and promotion	9,798	9,792
Other	14,265	11,372
	$ 371,147	$ 352,427

FCC has reclassified certain comparative figures in the schedule of administration expenses as described in Note 28.

20. Fair value adjustment

For the year ended March 31 ($ thousands)	2017	2016
Guarantees	$ (11)	$ (6)
Venture capital investments	(901)	317
Derivative financial assets and liabilities	(11,168)	(5,092)
	$ (12,080)	$ (4,781)

21. Fair value of financial instruments

Financial instruments carried at fair value

FCC follows a three-level fair value hierarchy to categorize the inputs used to measure fair value. Level 1 is based on quoted prices in active markets, Level 2 incorporates models using inputs other than quoted prices and Level 3 incorporates models using inputs that are not based on observable market data. Details of the valuation methodologies applied and assumptions used in determining fair value are provided in Note 2.

Valuation hierarchy

The following table categorizes the level of inputs used in the valuation of financial instruments carried at fair value:

As at March 31 ($ thousands)	2017		
	Level 2	**Level 3**	**Total**
Assets			
Cash equivalents	**$ 440,305**	**$ –**	**$ 440,305**
Temporary investments	**435,530**	**–**	**435,530**
Derivative financial assets	**35,831**	**–**	**35,831**
Venture capital investments	**–**	**55,015**	**55,015**
	$ 911,666	**$ 55,015**	**$ 966,681**
Liabilities			
Derivative financial liabilities	**$ 3**	**$ –**	**$ 3**

As at March 31 ($ thousands)	2016		
	Level 2	Level 3	Total
Assets			
Cash equivalents	$ 693,222	$ –	$ 693,222
Temporary investments	337,049	–	337,049
Derivative financial assets	47,510	–	47,510
Venture capital investments	–	41,977	41,977
	$ 1,077,781	$ 41,977	$ 1,119,758
Liabilities			
Derivative financial liabilities	$ 422	$ –	$ 422

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. For the year ended March 31, 2017, there were no transfers between levels (2016 – $nil).

21. Fair value of financial instruments (continued)

Level 3 financial instruments

The following table summarizes the changes in the Level 3 valuation hierarchy for venture capital investments that occurred during the year:

As at March 31 ($ thousands)	2017	2016
Balance, beginning of year	**$ 41,977**	$ 33,248
Acquisitions	**23,163**	11,217
Repayments	**(10,000)**	(2,333)
Change in accrued interest	**776**	(472)
Net (losses) gains recognized in fair value adjustment	**(901)**	317
Balance, end of year	**$ 55,015**	$ 41,977

Net unrealized gains and losses relating to instruments still held at the reporting date recognized in the fair value adjustment are a $1.0 million loss (2016 – $0.3 million gain).

Financial instruments not carried at fair value

The estimated fair value of FCC's financial instruments that do not approximate carrying values in the financial statements, using the methods and assumptions described below, are as follows:

As at March 31 ($ thousands)	2017		2016	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Assets				
Loans receivable	**$ 31,007,050**	**$ 31,169,878**	$ 28,445,647	$ 28,704,562
Finance leases receivable	**16,468**	**16,505**	14,736	14,497
Liabilities				
Long-term debt	**16,508,032**	**16,554,987**	11,910,379	12,005,399

Financial instruments not carried at fair value as noted in the above table use Level 2 inputs in determining estimated fair value.

The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable-rate loans receivable approximates the carrying value due to having fluctuating interest rates that directly correspond to changes in the prime interest rate, on which the fair value is based. The collective allowance for credit losses related to loans receivable is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to its net realizable value, which is calculated by subtracting the individual allowance for credit losses from the book value of the impaired loans receivable.

The estimated fair value for the finance leases receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The collective allowance for credit losses related to finance leases is subtracted from the estimated fair value of the finance leases receivable.

21. Fair value of financial instruments (continued)

The estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

For all other financial instruments carried at amortized cost using the effective interest method, the carrying value approximates fair value due to the relatively short period to maturity of these instruments or because they are already at discounted values. This applies to FCC's cash, accounts receivable, other assets, accounts payable and accrued liabilities, short-term debt, transition loan liability and other liabilities excluding the reserve for insurance claims.

22. Operating lease arrangements

Operating leases as a lessor

Operating leases consist of agricultural equipment leased to customers under non-cancellable operating lease agreements. The initial lease terms of operating leases range from two to six years.

The future minimum lease payments are receivable as follows:

As at March 31 ($ thousands)	2017	2016
Amounts due		
Less than one year	$ 19,263	$ 16,170
Between one and five years	35,404	27,435
Greater than five years	4,127	–
	$ 58,794	$ 43,605

Operating leases as a lessee

FCC leases office space and equipment under operating leases. The lease terms range from two to 20 years, with an option to renew the lease after that date.

The future minimum lease payments under non-cancellable lease contracts are payable as follows:

As at March 31 ($ thousands)	2017	2016
Amounts due		
Less than one year	$ 23,162	$ 22,230
Between one and five years	70,934	68,725
Greater than five years	166,896	172,312
	$ 260,992	$ 263,267

Operating lease payments in the amount of $25.5 million (2016 – $21.2 million) have been included within facilities, software and equipment expense.

23. Commitments, guarantees and contingent liabilities

Loan and lease commitments

As at March 31, 2017, loans approved but undisbursed amounted to $3,927.7 million (2016 – $3,028.7 million). These loans were approved at an average interest rate of 3.47% (2016 – 3.54%) and do not form part of the loans receivable balance until disbursed. As many of these loan approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements. As at March 31, 2017, finance leases approved but undisbursed amounted to $4.6 million (2016 – $3.0 million) and operating leases approved but undisbursed amounted to $4.3 million (2016 – $3.2 million). These leases do not form part of the finance leases receivable or equipment under operating leases balances until disbursed. These commitments do not generate liquidity risk to FCC because it has sufficient funds available from the Government of Canada through the Crown Borrowing Program to meet its future cash requirements.

Investment in associates

As at March 31, 2017, FCC has committed to invest $45.3 million (2016 – $46.0 million) in investments in associates.

Venture capital commitments

As at March 31, 2017, FCC has committed to invest $nil (2016 – $14.9 million) in venture capital investments.

Capital commitments

Capital expenditures contracted for computer software and hardware at the end of the fiscal year but not yet incurred are $nil (2016 – $0.1 million). Capital expenditures contracted for equipment and leasehold improvements at the end of the fiscal year but not yet incurred are $nil (2016 – $2.0 million).

Guarantees

In the normal course of its business, FCC issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable as at March 31, 2017, is $5.5 million (2016 – $1.0 million). In the event of a call on these letters of credit, FCC has recourse in the form of security against its customers for amounts to be paid to the third party. Existing guarantees will expire within three years, usually without being drawn upon. As at March 31, 2017, an amount of $nil (2016 – $nil) was recorded for these letters of credit.

Contingent liabilities and provisions

Various legal proceedings arising from the normal course of business are pending against FCC. Management does not believe that liabilities arising from pending litigations will have a material adverse effect on the Consolidated Balance Sheet or the results of operations of FCC. Therefore, no amount has been included in the consolidated financial statements as at March 31, 2017, for these contingent liabilities.

In the normal course of operations, FCC enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements and, in certain circumstances, may require that FCC compensates the counterparty to the agreement for various costs resulting from breaches of

23. Commitments, guarantees and contingent liabilities (continued)

representations or obligations. FCC also indemnifies directors, officers and employees, to the extent permitted by law and FCC's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary, therefore FCC is unable to determine a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, FCC has not made any payments under such indemnifications and contingencies. No amount has been included in the consolidated financial statements as at March 31, 2017, for these indemnifications and contingencies.

24. Related party transactions

FCC is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations.

FCC is related to Avrio Subordinated Debt Fund I and Avrio Subordinated Debt Fund II. They are limited partnerships for which FCC holds 99% (2016 – 99%) of the partnership units. The Avrio Subordinated Debt Funds are consolidated as described in Note 2. All transactions between FCC and the Avrio Subordinated Debt Funds have been eliminated on consolidation and, as such, are not disclosed as related party transactions.

FCC is related to Avrio Fund I, Avrio Fund II, and Avrio Fund III. They are limited partnerships for which FCC holds 67% (2016 – 67%), 55% (2016 – 55%) and 46% (2016 – 46%), respectively, of the partnership units. FCC is entitled to 20% (2016 – 20%) of the voting rights of Avrio Fund I and Avrio Fund II, and 14% (2016 – 14%) of Avrio Fund III. The Avrio Equity Funds are venture capital limited partnerships where FCC exerts significant influence over operating, investing and financing decisions. These are accounted for using the equity method.

Other related parties of FCC are key management personnel, close family members of key management personnel and entities that are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members, and post-employment benefit plans for the benefit of FCC's employees.

Transactions with these entities were entered into in the normal course of business and are measured according to the relevant IFRS standard applicable to the transaction.

Transactions with the Government of Canada

The Government of Canada guarantees the borrowings of FCC.

FCC enters into short- and long-term borrowings with the Government of Canada through the Crown Borrowing Program. For the year ended March 31, 2017, $138.4 million (2016 – $135.8 million) was recorded in interest expense relating to these borrowings.

FCC receives government assistance in the HILLRP to share the credit losses on certain loans with the Government of Canada. The government assistance is recorded as either an increase or decrease to the provision for credit losses. For the year ended March 31, 2017, the increase recorded to the provision for credit losses was $0.5 million (2016 – $0.7 million decrease). The amount estimated to be returned to the Government of Canada is included in long-term debt.

FCC pays a dividend to the Government of Canada on an annual basis, as detailed in Note 25.

24. Related party transactions (continued)

Key management personnel compensation

Key management personnel includes directors and members of the Enterprise Management Team. Close family members of key management personnel are considered related parties and have been included in the amounts disclosed below.

The compensation paid by FCC during the year to key management personnel for services rendered is shown below:

For the year ended March 31 ($ thousands)	2017	2016
Salaries and other short-term employee benefits	$ 3,707	$ 4,183
Post-employment benefits	954	975
Board retainer and per diems	147	164
Total	$ 4,808	$ 5,322

Transactions with key management personnel

All transactions with key management personnel are with directors and entities related to those directors. The terms and conditions of the transactions with key management personnel were no more favourable than those available on similar transactions with other customers.

Loans to key management personnel outstanding as at March 31, 2017, were $5.8 million (2016 – $4.7 million). The maximum balance outstanding on these loans during the year ended March 31, 2017, was $6.6 million (2016 – $5.3 million). The weighted-average interest rate on the loans to key management personnel outstanding as at March 31, 2017, was 5% (2016 – 5%).

The loans to key management personnel are secured under similar conditions as transactions with other customers and the key management personnel entering into these transactions were subject to the same credit assessment process applied to all customers. There is no individual allowance established as at March 31, 2017, for the loans made to key management personnel (2016 – $nil).

Undrawn credit commitments with key management personnel totalled $38.9 million as at March 31, 2017, (2016 – $8.9 million).

Transactions with post-employment benefit plans

During the year, $205 thousand was received from the defined benefit pension plan (2016 – $174 thousand) for administrative services and was recorded in salaries and benefits.

25. Capital management

FCC manages capital in compliance with its Board-approved capital management policy. The capital management policy and supporting framework outline FCC's approach to assessing capital requirements for risks identified through its enterprise risk management framework. The objective of the capital management policy and supporting framework is to maintain a sound capital position in order to withstand economic downturn periods of extended loss and to support FCC's strategic direction. This will allow FCC to continue to serve the industry through all economic cycles.

Although not formally regulated, FCC manages its capital using a total capital ratio, dividing total capital by risk-weighted assets, as defined by the Capital Adequacy Requirements (CAR) guideline issued by the Office of the Superintendent of Financial Institutions (OSFI). This total capital ratio is then compared to the minimum capital requirements established by CAR and FCC's target capital ratio established through its Internal Capital Adequacy Assessment Process.

FCC's total capital consists of retained earnings, contributed surplus and AOCI, and is net of required regulatory adjustments as outlined in the CAR guideline. Applicable adjustments include the exclusion of intangible assets, accumulated gains or losses on derivatives designated as cash flow hedges and post-employment benefit assets. All of FCC's capital is considered Common Equity Tier 1 (CET1) capital, therefore total capital and CET1 capital are equivalent.

As at March 31, 2017 and 2016, FCC's total capital ratio was greater than both the minimum regulatory capital ratio and the target capital ratio, and therefore in compliance with OSFI's CAR guideline and FCC's Internal Capital Adequacy Assessment Process.

As at March 31 ($ thousands)	2017	2016
Capital		
Retained earnings	**$ 5,106,783**	$ 4,698,824
Contributed surplus	**547,725**	547,725
AOCI	**86,271**	107,121
Required regulatory adjustments:		
Computer software	**(32,966)**	(33,307)
Post-employment benefit assets	**(53,536)**	–
Accumulated net gains on derivatives designated as cash flow hedges	**(86,458)**	(108,179)
CET1/Total capital	**$ 5,567,819**	$ 5,212,184
Risk-weighted assets		
Credit risk-weighted assets	**$32,358,883**	$29,377,526
Operational risk-weighted assets	**1,823,987**	1,793,320
Total risk-weighted assets	**$ 34,182,870**	$ 31,170,846
Total capital ratio	**16.3%**	16.7%
Target capital ratio	**15.0%**	15.0%
Minimum regulatory capital ratio	**10.5%**	10.5%

25. Capital management (continued)

Debt to equity

FCC's only statutory limit, as prescribed by the Farm Credit Canada Act, requires that FCC's total direct and contingent liabilities not exceed 12 times equity. As at March 31, 2017, FCC's total direct and contingent liabilities were 4.82 times the shareholder's equity, excluding AOCI (2016 – 4.69 times the shareholder's equity, excluding AOCI).

Contributed surplus

FCC's contributed surplus consists of capital contributions made by the Government of Canada, net of the March 31, 1998, reallocation of $660.6 million to eliminate FCC's accumulated deficit.

As at March 31, 2017, cumulative capital payments received from the Government of Canada amounted to $1,208.3 million (2016 – $1,208.3 million). No capital payments have been received since 2006. The statutory limit for that same period was $1,250.0 million (2016 – $1,250.0 million).

Dividend

On December 7, 2016, the Board declared a dividend for the year ended March 31, 2016 in the amount of $268.3 million (2016 – $90.4 million for the year ended March 31, 2015) to FCC's shareholder, the Government of Canada, which was paid on December 21, 2016.

26. Risk management

Financial risk management

FCC has identified the major categories of financial risk to which it is exposed as credit risk, market risk and liquidity risk.

a) Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to FCC. Credit risk on loans and leases receivable is the most significant risk that FCC faces, although credit risk also exists on investments and derivative financial instruments.

Management of credit risk

The Board is responsible for approving FCC's Credit Risk Management policy and relies on a number of committees, divisions and business units to effectively manage credit risk.

Measurement of credit risk

The Risk Management division assesses credit risk at the aggregate level, providing detailed credit policies, assessment tools and models that quantify credit risk, allowance for credit losses and capital requirements. It also monitors the agriculture and agri-food operating environments to ensure FCC's lending policies, activities and prices are appropriate and relevant.

Policies, processes, systems and strategies are used to manage the credit risk of FCC's portfolio. Each year, Risk Management develops a comprehensive portfolio vision to set numeric targets for many of these tools, models and strategies.

Significant research, modelling, validation and interpretation are used to determine the targets for each tool as follows:

26. Risk management (continued)

Risk scoring and pricing system

The risk scoring and pricing system (RSPS) is used to rank risk for loans in FCC's portfolio. Risk ranking is based on customer, loan and enterprise characteristics, which model a risk score. Each score translates into a probability of default. The higher the score, the lower the probability of default. RSPS is also used to price loans.

RSPS scores are based on inputs that are categorized under four main themes:

- customer credit rating and historical payment performance
- customer financial ratios
- customer business experience
- customer primary enterprise

RSPS weights each characteristic differently to arrive at the final RSPS score. These weightings are based on FCC's historical experience and are set with the objective to maximize the system's ability to predict probability of default.

Allowance for credit risk model

The allowance for credit risk model estimates incurred losses in the portfolio due to credit risk. There are two components to the allowance for credit risk model: individual and collective. The allowance on individual loans is determined for non-performing loans when, in management's opinion, credit quality has deteriorated to the extent that FCC no longer has reasonable assurance of the timely collection of the full amount of principal and interest. In addition, an individual allowance is determined for loans that have met both the following criteria:

- has a minimum of $500 past due for 90 consecutive days or more
- insufficient collateral to recover amounts outstanding

The collective allowance is calculated on loans within the portfolio that have no individual allowance and have met one of these indicators of potential future impairment:

- all loans for customers with any one loan that has a minimum balance of $500 past due for less than 90 consecutive days
- all loans for customers with any one loan that has had an amortization extension within the terms of the loan in the past year
- any individual loan that has had a drop in the RSPS risk score of 15 or more points in the past year

A collective allowance is also calculated on those loans where losses are thought to have been incurred but evidence of the loss has not been exhibited. Based on historical experience, there is an emergence period between when impairment occurs and when it becomes evident in the portfolio. From the emergence period, migration rates are used to determine incurred losses within the portfolio that are not yet evident. For all components of the allowance for credit risk model, the model considers the collateral position, as well as customer, loan and collateral characteristics, to estimate the appropriate amount of allowance.

Macro measures that demonstrate the health of the portfolio are as follows:

As at March 31	**2017**	2016
Weighted-average loan-to-security ratio for secured loans	**49.8%**	49.9%
Loans secured by a general security agreement and unsecured loans as a percentage of loans receivable	**4.0%**	4.2%

26. Risk management (continued)

Collateral

FCC mitigates its credit risk through collateral. FCC monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by enterprise. Upon initial recognition of a loan, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market prices or indexes of similar assets. The form of collateral obtained is generally real estate, quotas or equipment, depending on the purpose of the loan.

Loan commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. FCC is potentially exposed to loss in an amount equal to the total unused commitments. See Note 23 for further details regarding FCC's loan commitments. To mitigate risk, unused commitments are included as input into FCC's capital requirement calculations.

Maximum exposure to credit risk before collateral held or other credit enhancements

As at March 31 ($ thousands)	2017	2016
On balance sheet		
Temporary investments	**$ 435,530**	$ 337,049
Accounts receivable	**389,048**	24,820
Derivative financial assets	**35,831**	47,510
Loans receivable	**31,244,423**	28,676,816
Finance leases receivable	**17,546**	15,671
Investment in associates	**50,908**	55,489
Venture capital investments	**55,015**	41,977
Other assets	**22,179**	21,345
	32,250,480	29,220,677
Off balance sheet		
Financial guarantees	**5,536**	998
Loan and lease commitments	**3,936,603**	3,034,895
Investment in associates commitments	**45,300**	46,034
Venture capital commitments	**–**	14,852
	3,987,439	3,096,779
Total maximum exposure to credit risk	**$ 36,237,919**	$ 32,317,456

The preceding table represents a worst-case scenario of credit risk exposure to FCC at the end of the year, without taking into account any collateral held or other credit enhancements attached. For on balance sheet assets, the exposure is based on carrying values as reported in the Consolidated Balance Sheet. For off balance sheet items, the exposure is based on the maximum amount that FCC would have to pay if the item was called upon.

Loans receivable

Loans receivable past due but not impaired

A loan is considered to be past due when a customer has not made a payment by the contractual due date and the amount owing is greater than $500. Loans less than 90 consecutive days past due are not considered impaired, unless other information is available to the contrary. As well, loans past due are not considered impaired if they are sufficiently secured and collection efforts are reasonably expected to result in full repayment. The longer the loan is past due and interest continues to accrue, the greater the risk the recoverable amount from the security value is less than the carrying value of the loan. Gross amounts of loans that were past due but not impaired were as follows:

26. Risk management (continued)

As at March 31 ($ thousands)	2017	2016
Past due but not impaired		
Up to 30 days	**$ 206,557**	$ 167,722
31 – 60 days	**52,369**	37,663
61 – 89 days	**18,812**	21,394
90 days or more	**71,884**	90,217
	$ 349,622	$ 316,996

Loans receivable neither past due nor impaired

The credit quality of loans that were neither past due nor impaired can be assessed by referencing FCC's RSPS scores. The total owing for each RSPS score bucket as a percentage of the total owing that is neither past due nor impaired is as follows:

As at March 31	2017	2016
RSPS score		
400-650	**0.4%**	0.4%
651-769	**8.3%**	8.8%
770-850	**81.3%**	80.3%
851-999	**10.0%**	10.5%
	100.0%	100.0%

The majority of the RSPS scores are updated on a monthly basis. For certain types of loans, different approval and credit management processes are used. These represent approximately 5% of FCC's total portfolio.

Counterparty credit risk – derivatives and temporary investments

Credit risk arises from the potential for a counterparty to default on a contractual obligation to FCC. To mitigate this risk, FCC complies with the guidelines issued by the Minister of Finance by entering into derivatives with counterparties of high credit quality only, as determined by the published ratings of external credit rating agencies.

In the normal course of business, FCC receives collateral on certain transactions to reduce its exposure to counterparty credit risk. FCC is normally permitted to sell, dispose, invest or re-pledge the collateral it receives under terms that are common and customary to standard derivative activities.

The counterparty derivative obligation may arise when market-related currency and interest factors change, resulting in unrealized gains to FCC. These unrealized gains result in positive fair values for these derivative financial instruments. FCC is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. Furthermore, standard credit mitigation via master netting agreements provided in the International Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. The master netting arrangements do not meet the criteria for offsetting in the Consolidated Balance Sheet. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default of the counterparty. In addition, FCC and its counterparties do not intend to settle on a net basis or to realize the assets and settle liabilities simultaneously. Credit Support Annex (CSA) documentation is also in place with most of FCC's counterparties. These agreements are addendums to existing ISDA documentation, and further specify the conditions for providing FCC with collateral in the event the counterparty credit exposure exceeds an agreed threshold. For derivative transactions where a CSA is in place, the counterparty must have a minimum long-term credit rating of A- from two or more external credit rating agencies (S&P, Moody's or DBRS). See Note 5 for the quantification of counterparty credit risk.

26. Risk management (continued)

Temporary investments are permitted with government counterparties. These investments are limited to a term to maturity equal to or less than one year and must have a minimum long-term credit rating of A low/A3/A- from two or more external credit rating agencies. FCC also has cash equivalents that are permitted with schedule 1 and 2 banks. These investments are limited to a term to maturity equal to or less than 90 days and must have a minimum short-term credit rating of A1-/R1-low/P-1 from two or more external credit rating agencies. The actual credit ratings will determine the maximum face amount of investments per counterparty.

FCC reviews credit ratings and the financial performance of counterparties regularly and has controls in place to manage counterparty risk.

Credit quality

The following table presents the credit quality of FCC's cash equivalents and temporary investments as rated by S&P:

As at March 31 ($ thousands)	2017		2016	
	Cash equivalents	**Temporary investments**	Cash equivalents	Temporary investments
Government & government guaranteed				
AAA	**$ –**	**$ 114,679**	$ 14,974	$ 126,159
AA+	**–**	**53,931**	11,984	72,335
AA	**12,991**	**44,606**	34,163	–
A+	**–**	**222,314**	55,944	138,555
	12,991	**435,530**	117,065	337,049
Schedule 1 banks				
A-1+	**174,807**	**–**	190,631	–
A-1	**252,507**	**–**	385,526	–
	427,314	**–**	576,157	–
	$ 440,305	**$ 435,530**	$ 693,222	$ 337,049

Venture capital debt investments

FCC is exposed to credit risk through its Avrio Subordinated Debt Fund investments. FCC manages credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with each fund's Limited Partnership Agreement. The investment managers monitor and report on the financial condition of investee companies regularly.

b) Market risk

Market risk is the potential for loss due to adverse changes in underlying market factors, such as interest rates and foreign exchange rates.

26. Risk management (continued)

The Board is responsible for approving FCC's Market Risk Management Policy and relies on a number of committees, divisions and business units to effectively manage market risk. The market risk policies and limits ensure exposures to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. FCC's policies and processes are based on industry best practices and the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations.

Interest rate risk

Interest rate risk is the risk that a change in the interest rate adversely affects FCC's net interest income and fair value measurements. Interest rate risk arises from interest rate mismatches between assets and liabilities and embedded options. Interest rate mismatches occur because of different maturity and repricing dates, residual assets funded by equity and different interest rate benchmarks for some assets and liabilities. Embedded options exist on fixed-rate loans that have principal deferral options, prepayment features and interest rate guarantees on loan commitments.

Exposure to interest rate risk is monitored primarily through an asset and liability model. Various scenarios are produced at least monthly to analyze the sensitivity of net interest income and fair values to a change in interest rates and balance sheet assumptions. The asset and liability model is back-tested and validated to ensure the logic and assumptions used in the model are reasonable when compared to actual results.

Interest rate risk management uses defined limits based on the projected impact of a 2% immediate and sustained change in the level and term structure of interest rates. The defined limit for the variability of net interest income is that, for the next 12-month period, net interest income should not decline by more than 5%. The second defined limit is that the economic value of equity (EVE) should not decline by more than 10% of the total equity (excluding AOCI) for a 2% change in interest rates. Based on FCC's financial position and assuming an immediate and sustained 2% change in interest rates occurs across all maturities and curves, net interest income and the EVE would be affected over the next 12 months as follows:

	2017 Impact of		2016 Impact of	
($ thousands)	2% increase	2% decrease	2% increase	0.40% decrease[1]
Projected net interest income variability	**$ 30,800**	**$ (34,900)**	$ 30,048	$ (6,443)
Limit	**(51,400)**	**(51,400)**	(50,915)	(50,915)
EVE variability	**(323,200)**	**320,800**	(303,514)	60,803
Limit	**(565,451)**	**(565,451)**	(524,655)	(524,655)

(1) In the prior year, the lowest rate on the yield curves used in the model was 0.40% to avoid using negative rates.

26. Risk management (continued)

The following table summarizes FCC's interest rate risk based on the gap between the carrying value of assets, and liabilities and equity, grouped by the earlier of contractual repricing or maturity dates and interest rate sensitivity. In the normal course of business, loan customers frequently prepay their loans in part or in full before the contractual maturity date.

As at March 31 ($ thousands)	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total 2017	2016
Assets								
Cash and cash equivalents	$ –	$ 784,958	$ –	$ –	$ –	$ 5,637	$ 790,595	$ 831,387
Yield	–	0.88%	–	–	–	–	–	–
Temporary investments	–	148,513	286,347	–	–	670	435,530	337,049
Yield (1)	–	0.63%	0.69%	–	–	–	–	–
Derivative financial assets (2) (3)	–	(237,994)	–	237,994	–	35,831	35,831	47,510
Yield (1)	–	0.68%	–	4.54%	–	–	–	–
Loans receivable	16,540,780	1,461,857	3,687,056	8,305,847	901,550	109,960	31,007,050	28,445,647
Yield (1)	3.56%	5.05%	3.12%	3.67%	4.39%	–	–	–
Finance leases receivable	–	1,221	3,743	11,504	–	–	16,468	14,736
Yield (1)	–	4.24%	4.24%	4.24%	–	–	–	–
Investment in associates	–	–	–	–	–	50,908	50,908	55,489
Yield	–	–	–	–	–	–	–	–
Venture capital investments	–	–	–	47,515	7,500	–	55,015	41,977
Yield	–	–	–	10.93%	8.75%	–	–	–
Other	–	–	–	–	–	622,875	622,875	177,110
Total assets	$ 16,540,780	$ 2,158,555	$ 3,977,146	$ 8,602,860	$ 909,050	$ 825,881	$ 33,014,272	$ 29,950,905
Liabilities and equity								
Borrowings	$ –	$ 19,130,932	$ 2,756,435	$ 4,880,065	$ 124,000	$ 32,739	$ 26,924,171	$ 24,262,785
Yield (1)	–	0.45%	0.69%	1.12%	1.62%	–	–	–
Derivative financial liabilities (2) (3)	–	(13,299)	–	–	13,299	3	3	422
Yield (1)	–	0.98%	–	–	1.78%	–	–	–
Other	–	–	–	–	–	349,319	349,319	334,028
Shareholder's equity	–	–	–	–	–	5,740,779	5,740,779	5,353,670
Total liabilities and equity	$ –	$ 19,117,633	$ 2,756,435	$ 4,880,065	$ 137,299	$ 6,122,840	$ 33,014,272	$ 29,950,905
Total gap 2017	$ 16,540,780	$ (16,959,078)	$ 1,220,711	$ 3,722,795	$ 771,751	$ (5,296,959)	$ –	$ –
Total cumulative gap 2017	$ 16,540,780	$ (418,298)	$ 802,413	$ 4,525,208	$ 5,296,959	$ –	$ –	$ –
Total gap 2016	$ 15,995,274	$ (16,005,713)	$ 1,180,862	$ 3,552,055	$ 626,573	$ (5,349,051)	$ –	$ –
Total cumulative gap 2016	$ 15,995,274	$ (10,439)	$ 1,170,423	$ 4,722,478	$ 5,349,051	$ –	$ –	$ –

(1) Represents the weighted-average effective yield based on the earlier of contractual re-pricing or maturity date

(2) The notionals for derivatives with a positive fair value have been netted against derivatives with a negative fair value and are included with derivative financial assets.

(3) Represents notional principal amounts on derivatives, except for the non-interest sensitive amount

26. Risk management (continued)

Foreign exchange risk

FCC is exposed to foreign exchange risk due to differences in the amount and timing of foreign currency denominated asset and liability cash flows. The currency exposure is minimized by matching foreign currency loans against foreign currency funding. This risk cannot be perfectly hedged because the assets are amortizing loans and the liabilities are discount bonds, which creates timing mismatches for the principal and interest cash flows. However, FCC has determined that the residual risk is insignificant.

FCC mitigates foreign exchange risk through economic hedges. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency denominated debt is used specifically to finance a like currency asset.

Derivatives

FCC uses derivatives to hedge interest rate and foreign exchange risk. Derivatives assist in altering the risk profile of the Consolidated Balance Sheet by reducing mismatches of assets and liabilities while ensuring interest rate risk and foreign exchange risk are managed within acceptable ranges.

Derivative transactions lead to net income volatility because the derivatives are recorded at fair value and this volatility may not be representative of the overall risk.

Post-employment benefits

FCC is exposed to significant financial risks through the registered pension plans' investments. These financial risks are managed by having an investment policy that is approved annually by management and at a minimum every three years by the Board. The Investment Policy provides guidelines to the registered pension plans' investment managers for the asset mix of the portfolio regarding quality and quantity of debt, equity and alternative investments. The asset mix helps reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Investment risk is managed by diversification guidelines within the investment policy.

The pension plans' asset structure includes both Canadian Long Bonds and Canadian Real Return Bonds in an attempt to match a portion of the plans' assets to the plans' liabilities. The current target composition of the plans' portfolio includes 30% of assets invested in Canadian Long Bonds and 0% invested in Canadian Real Return Bonds. The Plan is in the process of transitioning assets from the previous target allocations to the current targets, allowing for 13% to be invested in Canadian Real Return Bonds in the interim. This is specified in the Investment Policy. The Canadian Long Bonds have a duration of 14 years and the Canadian Real Return Bonds' duration is 15 years, while the registered pension plans' liabilities are estimated to be 19 years and the supplemental pension plans' liabilities are estimated to be 19 years. As the plans' benefits are fully indexed to inflation, the Canadian Real Return Bonds provide short-term inflation protection for the plans.

The pension plans' Funding Policy is approved by the Board at a minimum every three years. The policy states two primary objectives, which are to fund the pension plans' benefits, measured on a going concern basis and to provide adequate funding for future service benefits in accordance with the applicable law and plan text. With respect to the defined benefit provision, FCC will fund any going concern and solvency deficits over the statutory minimum and maintains discretion to make additional contributions at any time.

The Pension Plan Governance Policy is approved by the Board at a minimum every three years, and outlines the governance structure and responsibilities with respect to the registered and supplemental pension plans for the Board, committees and management. The Pension Plan Governance Manual is approved annually by management and includes review and monitoring criteria for investment managers and third-party providers as well as guidelines for eligible fees and expenses. All fees and expenses paid from the Plan are reviewed to ensure they are eligible based on the guidelines.

26. Risk management (continued)

Insurance

FCC's insurance provider determines the reserve for insurance claims actuarially using the Canadian Asset Liability Method. The future cash flows from the insurance contracts and the assets that support them are dynamically projected in a number of scenarios prescribed by the Canadian Institute of Actuaries, using current best estimate assumptions with provisions for adverse deviation. FCC engages independent actuaries from time to time to review its insurance program to ensure the assumptions, methodologies and processes are prudent.

In calculating the reserve for insurance claims, assumptions must be made about interest rates, asset default, inflation, mortality and morbidity rates, policy terminations, expenses and other factors over the life of the insurance policies. Best estimate assumptions are used for expected future experience. Additional provisions are included in the reserve for insurance claims to provide for possible adverse deviations from the best estimate. If the assumption is more susceptible to change or if there is more uncertainty about the underlying best estimate assumption, a correspondingly larger provision is included in the reserve for insurance claims. There have been no changes in assumptions that have significantly affected the reserve for insurance claims in the current fiscal year.

c) Liquidity risk

Liquidity risk is the risk that FCC has insufficient funds to meet payment obligations as they come due.

The Board is responsible for approving FCC's Liquidity Risk Management policy and relies on a number of committees, divisions and business units to effectively manage liquidity risk. The liquidity risk policies and limits ensure FCC's objective to maintain sufficient funds to meet customer and business operational requirements is met. FCC's policies and processes are based on industry best practices and the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations.

FCC measures, forecasts and manages cash flow as an integral part of its liquidity management. FCC's objective is to maintain sufficient funds to meet customer and business operational requirements should a market or operational event occur, disrupting FCC's access to funds. The total investment portfolio is targeted to be a minimum of 30 calendar days of upcoming cash requirements.

FCC maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and temporary investments of $1,226.1 million were on hand as at March 31, 2017 (2016 – $1,168.4 million)
- access to short-term funding – FCC's access to funding through the Crown Borrowing Program and capital markets provides FCC with sufficient liquidity to meet daily cash requirements
- access to a $30.0 million bank operating line of credit

26. Risk management (continued)

The following table shows the undiscounted cash flows of FCC's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal cash flows represent the contractual undiscounted cash flows relating to the principal and interest on the financial liability. FCC's expected cash flows on certain instruments vary significantly from this analysis. For example, certain borrowings that may be prepaid by FCC have not been included in their earliest possible maturities due to being impracticable to estimate.

Residual contractual maturities of financial liabilities

As at March 31 ($ thousands)	2017						
	Carrying value	**Gross nominal outflow**	**Less than 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**
Non-derivative financial liabilities							
Borrowings	**$ 26,924,171**	**$(26,921,893)**	**$ (1,302,235)**	**$ (1,669,051)**	**$ (7,458,670)**	**$(16,229,065)**	**$ (262,872)**
Transition loan liability	**130,024**	**(131,482)**	**(3,810)**	**(8,857)**	**(38,624)**	**(79,648)**	**(543)**
Derivative financial liabilities	**3**	**(3)**	**(3)**	**–**	**–**	**–**	**–**
	$ 27,054,198	**$(27,053,378)**	**$ (1,306,048)**	**$ (1,677,908)**	**$ (7,497,294)**	**$(16,308,713)**	**$ (263,415)**

As at March 31 ($ thousands)	2016						
	Carrying value	Gross nominal outflow	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings	$ 24,262,785	$ (24,260,058)	$ (1,787,846)	$ (2,539,289)	$ (8,036,112)	$ (11,343,331)	$ (553,480)
Transition loan liability	105,222	(106,449)	(3,984)	(8,467)	(30,210)	(62,647)	(1,141)
Derivative financial liabilities	418	(542)	(14)	(18)	(85)	(393)	(32)
	$ 24,368,425	$ (24,367,049)	$ (1,791,844)	$ (2,547,774)	$ (8,066,407)	$ (11,406,371)	$ (554,653)

The provisions are reviewed for reasonableness when taken one at a time and also in total. The best estimate assumptions and margins for adverse deviation are reviewed annually and revisions are made where deemed necessary and prudent. The assumptions with the greatest potential impact on net income are mortality and investment returns.

Insurance mortality refers to the rates at which death occurs for defined groups of people and is generally based on FCC's five-year average experience. In general, assumed mortality rates do not reflect any future expected improvement, except in some instances where the net effect of reflecting future improvement increases the policy liabilities.

Assumptions related to investment returns include expected future credit losses on fixed income investments. Past corporation experience and industry experience over the long term as well as specific reviews of the current portfolio are used to project credit losses.

Assumptions for termination experience are generally based on FCC's five-year average experience.

Expense assumptions are based on FCC's recent experience using an internal expense allocation methodology.

27. Subsequent events

The Board approved the consolidated financial statements on May 31, 2017. There were no subsequent events requiring recognition or disclosure within the consolidated financial statements between March 31, 2017, and the date of approval.

28. Comparative figures

In the current year, FCC combined certain administration expenses into a single line item entitled other and combined the salaries line item and the benefits line item into a single line entitled salaries and benefits in the Consolidated Statement of Income, to reflect the similarity of the expenses. FCC has further disclosed the components of administration expenses in Note 19. Consequently, FCC has reclassified the comparative figures to align with the current year's presentation.

The reclassification did not have an impact on the total administration expenses presented in the Consolidated Statement of Income, and did not impact any other statements. Salaries and benefits have been combined for a total of $226.0 million as at March 31, 2016, in salaries and benefits in the Consolidated Statement of Income. Facilities, software, and equipment, professional fees, amortization and depreciation, travel and training, marketing and promotion and other have been combined for a total of $126.5 million as at March 31, 2016, in other in the Consolidated Statement of Income.

FCC also identified in the current year certain expenses within professional fees that are more closely aligned with facilities, software and equipment expenses. Consequently, FCC has reclassified the comparative figures now disclosed in Note 19 as explained above to align with the current year's presentation.

The reclassification did not have an impact on the total administration expenses presented in the Consolidated Statement of Income and is summarized in the table below:

For the year ended March 31, 2016 ($ thousands)	As previously reported	Reclassification	Reclassified
Salaries	$ 156,784	$ –	$ 156,784
Benefits	69,178	–	69,178
Facilities, software and equipment	32,042	8,108	40,150
Professional fees	41,045	(8,108)	32,937
Amortization and depreciation	18,805	–	18,805
Travel and training	13,409	–	13,409
Marketing and promotion	9,792	–	9,792
Other	11,372	–	11,372
Total administration expenses	$ 352,427	$ –	$ 352,427

Glossary

Agribusiness and agri-food

Suppliers or processors who sell to, buy from and otherwise serve primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

Alliances

Relationships established by contract between FCC and other agriculture or financial organizations designed to pool talents and offer expanded customer services.

Allowance for credit losses

Management's best estimate of credit losses incurred on a loan and lease receivable portfolio. Allowances are accounted for as deductions on the balance sheet from loans and leases receivable, respectively.

Basis point

One hundredth of one per cent, used when describing applicable interest rates or the yield of an investment (1 bps = 0.01 per cent).

Counterparty

The other party involved in a financial transaction, typically another financial institution.

Counterparty risk

The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit facility

An arrangement that allows a customer to borrow an agreed amount of money for a particular period of time. The purpose of a credit facility is to provide capital to the borrower for multiple purposes and time frames without the need to structure a loan for each one. They can be used as a single loan or as an umbrella for multiple loans and can encompass multiple terms, repayment schedules and interest rates.

Credit rating

A classification of credit risk based on the investigation of an individual or company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Crown Borrowing Program

Direct lending provided to FCC by the federal government.

Customer support program

Plans developed to proactively assist customers who may experience loan repayment difficulties during downturns in a particular segment of the agriculture industry. Individual plans can include deferred payments or flexible repayment schedules for defined periods of time.

Debt to equity ratio

The level of debt expressed as dollars of debt per one dollar of total equity, excluding accumulated other comprehensive income.

Derivative financial instrument

A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates and foreign exchange rates. Types of derivative contracts include interest rate swaps, interest rate options, currency swaps and forward contracts.

Dividend payout ratio

The dividend payout ratio is dividends expressed as a percentage of prior year's net income attributable to the shareholder of the parent entity.

Economic value of equity (EVE)

The net present value of assets less liabilities. It is used to measure the sensitivity of FCC's net economic worth to changes in interest rates.

Effective interest method

A method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

Efficiency ratio

A measure of how well resources are used to generate income calculated as administration expense as a percentage of revenue. Revenue is composed of net interest income, net insurance income and other income.

Fair value

The estimated price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

Foreign exchange risk

The risk of financial loss due to adverse movements in foreign currencies.

Hedge

A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through the elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans

Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more and past due for 90 days is classified as impaired unless the loan is sufficiently secured.

Interest rate swaps

Contractual agreements for specified parties to exchange interest payments for a specified period of time based on notional principal amounts.

Minimum regulatory capital ratio

The minimum level of capital, as a percentage of risk-weighted assets, which is prescribed by regulations issued by the Office of the Superintendent of Financial Institutions (OSFI).

Net interest income (NII)

The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin

NII expressed as a percentage of average total assets.

Notional amount

The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Other comprehensive income (OCI)

Represents gains and losses due to changes in fair value that are recorded outside net income in a section of the shareholder's equity called accumulated other comprehensive income (AOCI).

Past due

A loan is past due when a counterparty has failed to make a payment when contractually due and the amount owing is greater than $500.

Prepayments

Prepayments are defined as unscheduled principal payments prior to interest term maturity.

Primary production

Agriculture operations that produce raw commodities such as grains and oilseeds, cattle, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. Primary production also includes vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of ocean and inland fish) and part-time farming.

Provision for credit losses

Charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on equity (ROE)

Net income attributable to the shareholder of the parent entity expressed as a percentage of total average equity, excluding AOCI.

Revolving disbursements

Revolving disbursements represents the release of funds on financing where customers can disburse and repay multiple times up to the maximum of the approved amount.

Risk scoring and pricing system (RSPS)

A tool used to evaluate the type and potential impact of risks present in each loan or finance lease to ensure FCC is adequately compensated for the risk in its portfolio. The pricing component of RSPS calculates the risk price (risk adjustment), which is the portion of the loan margin required to cover the risk of loss.

Risk-weighted assets (RWA)

Assets weighted according to relative risk as prescribed by the regulatory capital requirements issued by OSFI.

Term disbursements

Term disbursements represent the release of funds against approved loans. Term disbursements exclude the refinancing of existing FCC loans and revolving disbursements.

Total capital ratio

The total capital ratio is calculated by dividing total capital by RWA. FCC's total capital consists of retained earnings, contributed surplus and AOCI, and are net of required regulatory adjustments prescribed by OSFI. The applicable regulatory adjustments consist of the exclusion of intangible assets, accumulated gains or losses on derivatives designated as cash flow hedges and post-employment benefit asset.

FCC office locations

British Columbia

Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

Alberta

Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, High River (S), La Crete, Leduc, Lethbridge, Lloydminster, Medicine Hat, Olds, Red Deer, Stettler (S), Strathmore (S), Vegreville, Vermilion, Westlock

Saskatchewan

Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake (S), Moose Jaw, Moosomin (S), North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Wadena (S), Weyburn, Yorkton

Manitoba

Arborg, Brandon, Carman, Dauphin, Killarney (S), Morden, Neepawa, Portage la Prairie, Shoal Lake (S), Steinbach, Stonewall (S), Swan River, Virden, Winnipeg

Ontario

Casselman, Chatham, Clinton, Essex, Frankford, Guelph, Kanata, Kingston, Lindsay, Listowel, London, Mississauga, New Liskeard, Owen Sound, Simcoe, Stratford, Thornton, Vineland, Walkerton, Woodstock, Wyoming

Quebec

Alma, Ange-Gardien, Blainville, Drummondville, Gatineau (S), Joliette, Lévis, Rivière-du-Loup, Salaberry-de-Valleyfield, Sherbrooke, St-Hyacinthe, St-Jean-sur-Richelieu, Ste-Marie, Trois-Rivières, Victoriaville

New Brunswick

Moncton, Woodstock

Nova Scotia

Kentville, Truro

Prince Edward Island

Charlottetown

Newfoundland and Labrador

Mount Pearl

(S) Satellite office – limited hours

Corporate office

1800 Hamilton Street
P.O. Box 4320
Regina SK S4P 4L3
Telephone: 306-780-8100
Fax: 306-780-5167
TTY: 306-780-6974

Customer Service Centre

Hours: M-F: 7 a.m. – 7 p.m. Eastern
Telephone: 1-888-332-3301
Email: csc@fcc.ca

Software Customer Care Centre

1800 Hamilton Street
P.O. Box 4320
Regina SK S4P 4L3
Toll-free: 1-800-667-7893
Telephone: 306-721-7949
Fax: 306-721-1981

Government and Stakeholder Relations

Tower 7 Floor 10 Room 322
1341 Baseline Road
Ottawa ON K1A 0C5
Telephone: 613-773-2940
Fax: 613-960-7024

fcc.ca

FCC's venture capital investments are managed by:

AVRIO CAPITAL

avriocapital.com
info@avriocapital.com

Farm Credit Canada
Advancing the business of agriculture

Canada